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REGIONAL COOPERATION IN THE ECONOMIC, SOCIAL AND RELATED FIELDS

Summary of the economic survey of Europe, 1995

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INTRODUCTION

1. Economic developments in the various parts of the region of the Economic Commission for Europe (ECE) have become increasingly divergent over the past year. In western Europe there has been a marked deterioration since the early months of 1995: economic growth in 1995 was not only lower than forecast a year ago, but the sharp deceleration through the year has led to a significant lowering of forecasts for 1996. This is an unexpected and disappointing development because it has occurred before the current upswing has had time to have much impact on persistently high levels of unemployment.

2. Economic growth has also slowed down in North America, but this was expected - indeed, looked for - after three years of robust expansion had significantly reduced the margins of spare capacity and triggered fears of overheating. The slow-down was therefore in line with the "soft landing" sought by the United States authorities, but it was more rapid than expected: GDP growth in North America last year was just over 2 per cent, compared with earlier expectations of 2¼ per cent. 1/

3. Economic performance varied considerably among the economies of eastern Europe, the Baltic States and the Commonwealth of Independent States (CIS). Eastern Europe now stands out as an area of rapid growth. On average, real GDP grew by over 5 per cent in 1995, following an average 4 per cent the year before, and official expectations are for a further acceleration in 1996. The variations are still considerable within this group of countries: output fell in Croatia and the former Yugoslav Republic of Macedonia in 1995 and rose by over 13 per cent in Albania, but in between these extremes there is a core group with growth rates of some 5-7 per cent.

4. In the Baltic States a somewhat hesitant recovery has become more firmly established in Estonia and Lithuania, where GDP grew by some 2½ per cent in 1995, but in Latvia there was a further set-back, with output falling again.

5. The deep depression of output in Russia and the other CIS countries continued last year, but the fall in output slowed considerably in a number of countries. Output actually increased in Armenia and Georgia, and there are expectations of an upturn beginning to emerge in more countries in 1996. Such a possibility, however, will very much depend on what happens in Russia with which economic links are still very close for many CIS members. Russian GDP fell by 4 per cent in 1995, but this was considerably less than expected at the beginning of the year. There are hopes that if the progress made with economic stabilization last year can be maintained, Russian output might stabilize and begin to rise in the course of 1996. But it must be stressed that the uncertainties are considerable and that the range of forecasts for 1996 include a further decline in output.

6. The gap between expectations and outcomes in 1995 underlines yet again the difficulties of making forecasts during and after a period of rapid structural change. This is true of the western market economies, where the short-term forecasting models still do not seem to have absorbed the consequences of the extensive deregulation that occurred in the 1980s or the impact on behaviour,

especially of consumers, of the experience of asset deflation that marked the last recession. But it is even more valid for those countries undergoing wholesale systemic transformation and large-scale restructuring of their economies.

7. Virtually all governmental and independent forecasts failed to anticipate the depth and length of the depression that followed the onset of the transition process in 1989 and after, 2/ and for two years running (1994 and 1995) the strength of the recovery in eastern Europe has been significantly underestimated. Most of the forecasts made for the transition economies, including those presented in this survey, are at best informed judgements and in some cases little more than working - or hopeful - assumptions. This is not surprising and, indeed, is unavoidable.

8. Short-term forecasting relies for reasonable success on the identification of a stable set of behavioural relationships operating within a stable institutional framework. But the whole point of the transition process is to change traditional modes of behaviour and transform the formal and informal infrastructures which govern economic activity. Thus, in the short-to-medium run, success for the transition process must inevitably undermine the parametric stability required for reasonably accurate forecasts.

I. WESTERN EUROPE AND NORTH AMERICA

9. The economic survey of a year ago shared a widespread judgement that the possibilities for sustained and balanced growth in western Europe were better than at any time since the 1960s. The inflationary and other shocks of the 1970s had long-lasting and severe effects on economic stability, but they had now largely worked their way through the system. In particular, inflation rates were generally at their lowest for decades, and those who feared the risks of a renewed flare-up ignored not only the margins of spare capacity in the western economies but also the structural changes that had occurred in the world economy since the early 1980s and the marked reduction in the inflationary expectations of price setters and wage earners.

10. The rapid recovery of output in the United States in 1992-1994 and, to a lesser extent, in the United Kingdom in 1993-1994 was actually accompanied by falling rates of inflation, despite the persistent fears of bondholders and financial markets to the contrary. In a low-inflationary environment, the expectations for western Europe in 1995 were for steady growth of about 3 per cent, to be led in the main by fixed investment and net exports. Given potential output growth of around 2 per cent a year, anticipated growth of 3 per cent also raised hopes of some reduction in unemployment or, at least, an end to further increases. The recovery of fixed investment also strengthened the prospect of lower unemployment over the longer term as capacity continued to expand.

11. But even as this favourable outlook was being formulated in the forecasts and governmental budget plans for 1995, the recovery in the western European economies was beginning to falter, and the loss of momentum gathered pace during the year. The average quarterly rate of GDP growth has been decelerating since

mid-1994, and the preliminary statistics actually show a slight fall in output in the last quarter of 1995. This sharp deceleration is not apparent from the annual averages which show GDP growth increasing from 2.5 per cent in 1994 to 2.7 per cent in 1995. Some of the smaller economies - Belgium and Switzerland - actually moved into recession in 1995 (defined as two consecutive quarters of negative growth), and this could also be the case, at least technically, for France and Germany in the first quarter of 1996 (although bad weather has played an important role in the latter two).

12. A number of factors have played a part in these developments. In general, consumer confidence has remained fairly weak throughout the recovery that began in the second half of 1993. This reflected fairly bleak prospects in the labour markets and uncertain prospects of future incomes; high levels of unemployment and the fear of unemployment have engendered a degree of economic insecurity among a much larger proportion of the labour force than used to be the case. Sectors and higher-income groups, particularly services (including government), hitherto more or less immune from periodic bouts of unemployment, are now threatened with job losses as a result of technical change and relatively weak demand or, in more fashionable language, of "downsizing". In this environment, the lagged effects on western Europe of rising interest rates in the United States during 1994 had a significant impact on consumer spending on durable goods, and this was reinforced in early 1995, despite the general easing of monetary policy, by increases in short-term interest rates in several countries as a result of turmoil in the foreign exchange markets.

13. Private consumption has also been weighed down by a number of other factors: higher taxes and social security charges and reductions in governmental transfers have dampened the growth of disposable income; and in some countries the weakness of the housing market and the persistence of negative equity in privately owned houses, as well as the continued reduction of earlier levels of indebtedness, have also discouraged spending. Private consumption grew on average by only 2 per cent in 1995, compared with annual rates of well over 3 per cent between 1986 and 1990.

14. Government spending also added little to growth, as Governments increased their efforts to lower general governmental deficits in time to meet the Maastricht criteria for convergence by the end of 1997.

15. Hopes that the recovery of fixed investment in 1994 would continue in 1995 have only been partly disappointed. The weakening of demand led to a steady cutting back of investment plans, but fixed investment still rose on average by some 4 per cent, compared with 1.6 per cent in 1994. A somewhat disturbing development, however, is that, in general, investment has been focused not on the expansion of productive capacity, which would improve the medium-term prospects for employment growth, but on cost reduction and the modernization of the capital stock. This is reflected in the much larger increase of investment in machinery and equipment (which rose some 7 per cent) as compared with construction (up 1.5 per cent). This development was partly a response to intense competition on world markets, but it is also a way to increase profits in the face of weak and uncertain prospects for the growth of demand. Thus, poor growth prospects will generally weaken investment, but the more immediate effect may be to alter the motives for investment - rationalization versus

expansion of capacity - which in turn will have longer-run implications for growth and employment.

16. The disappointment of expectations is clearly reflected in the behaviour of stock-building which played a major role in the slow-down in output growth last year. Stocks were built up rapidly in 1994 in anticipation of a sustained recovery of demand, but throughout 1995 further additions became steadily smaller in response to weak sales and, in some countries, high real interest rates. Whereas stock-building accounted, on average, for well over one third of GDP growth in 1994, last year it contributed a mere 8 per cent. This downturn in the stock cycle has occurred at an earlier stage than normal in the recovery process.

17. Domestic activity in western Europe continued to be supported by export growth in 1995, although the net effect was smaller than in 1994 because of a slow-down in intra-western European trade. Apart from the general weakening of demand, the exchange rate turbulence of early 1995 probably had a net contractionary effect on intra-trade in the second half of the year. Nevertheless, the region has continued to benefit from the strong global demand for investment goods and from the rapid growth of imports into the transition economies, most of which originate in western Europe, and the developing countries.

18. The weakening of activity in western Europe is of course a particularly worrying development, given the limited progress in reducing unemployment.

19. There was a small increase (0.6 per cent) in the level of western European employment in 1995 after falling by nearly 3½ per cent between 1991 and 1994. But the improvement was small, largely concentrated in the smaller economies, and seems to have slowed in the second half of the year. The weaker rate of job creation in western Europe contrasts sharply with the much more buoyant expansion in North America (increases of 3 per cent and nearly 2 per cent in 1994 and 1995). Although much stress has been given to the greater labour market "flexibility" in the United States as an explanation of this difference in the rates of job creation, the major factor in recent years seems more likely to be the considerable difference in rates of economic growth.

20. The unemployment rate in western Europe in 1995 averaged 10.5 per cent, slightly below its peak of 10.9 per cent in 1994 but still above the recession year of 1993. In several countries the rate would have been higher without early retirement schemes and other measures designed to encourage withdrawals from the labour force. There was some reduction in the extent of unemployment among young people in 1995, partly because of special labour market programmes in a number of countries (especially in France), but in general youth unemployment rates remain very high - 20 per cent or more in many countries - and constitute a major social problem and a tragic waste of resources.

21. In the United States the unemployment rate has been fairly stable at about 5.6 per cent since late 1994, but this is still below the rate of 6 per cent which has long been held to be the minimum consistent with non-accelerating inflation (the so-called NAIRU). However, although a probable reason for the Federal Reserve raising interest rates in early 1994 was concern that

unemployment was falling towards 6 per cent, inflation has not accelerated and has remained fairly subdued, at less than 3 per cent. This suggests that the unemployment rate consistent with stable inflation has fallen. In other words, there is room for unemployment to fall further without triggering a rise in the inflation rate. This also appears to be the case in western Europe. Consumer price inflation in western Europe, which also averaged less than 3 per cent throughout 1995, is not much higher than in the United States, and in France and Germany, it is significantly lower. Inflationary pressures and expectations remain low partly because of the weak prospects for demand but also because of the changes in economic structure and behaviour mentioned above.

22. The short-run economic outlook for western Europe is not very encouraging. Since the autumn, forecasts for GDP growth have been steadily lowered; business and consumer confidence have continued to fall, and current indicators such as order books, stocks and output expectations suggest little, if any, growth in the first quarter of 1996. Weaker growth - or even falling output - in France and Germany is bound to affect the other European economies because of their close integration. It now seems probable that economic growth will slow down in virtually every economy and, at best, western European GDP could rise by 1.5 per cent in 1996. This compares with actual growth of 2.7 per cent in 1995 and forecasts last autumn of a roughly similar rate for 1996. In North America real GDP growth is expected to be little changed from last year (around 2 per cent), while a long-awaited recovery in Japan is forecast to materialize with an increase in GDP of 2 per cent.

23. Expectations of a better outcome in western Europe are now focused on the likelihood of an acceleration in the growth of output in the second half of the year. The reasons for expecting such a rebound include the end of the stock adjustment process and the delayed response of consumer spending to lower interest rates. However, if GDP levels remain more or less unchanged in the first half of the year, an annual rate of over 4 per cent would be needed in the second half to produce a growth rate of 1.5 per cent for 1996 as a whole. Such an acceleration is not very likely, which means that if activity fails to pick up before mid-year, even the 1.5 per cent may prove to be optimistic.

24. This subdued outlook for growth in western Europe implies that, on the basis of present policies, a renewed rise in unemployment in 1996 will be unavoidable. However, the only likely change in economic policies at present is a further and perhaps faster rate of reduction in interest rates. Fiscal policy is currently constrained by the determined efforts of many European Governments to meet the convergence criteria of the Maastricht Treaty. There appears to be little room for manoeuvre here, although further efforts might be made to shift the composition of governmental expenditure in favour of items which have a positive effect on private consumption and fixed investment, as well as more active labour market policies.

25. But a significant reduction of unemployment, which is the major economic and social problem now facing western Europe, will not occur without a considerably higher rate of economic growth than that currently in prospect. Labour market policies do have an important role to play in reducing the costs to enterprises of hiring new staff and by increasing the employability of the young and the long-term unemployed with better education and training. But

these efforts will have little effect if the demand for labour is constrained by weak growth prospects. Fears that lowering unemployment will trigger more inflation are exaggerated; there is growing evidence that there is significant scope for reducing unemployment without raising inflation. Moreover, the risks of inflation have to be balanced against the risks to social and political stability of increasing numbers of disenchanted and marginalized people excluded from the social integration achieved through stable employment.

26. There is always of course the possibility of unforeseen events that, as noted above, can upset any forecast. Stronger growth in the rest of the world could boost western European exports with positive multiplier effects on intra-European trade. But many of the risks are still on the downside: tighter monetary policy in the United States could check the fall in European interest rates, as could increasing uncertainty about the future of European integration.

II. EASTERN EUROPE, THE BALTIC STATES AND THE COMMONWEALTH OF INDEPENDENT STATES

27. Economic performance in the countries of eastern Europe, the Baltic area and the CIS in the past year has been very varied, and the differences among them are becoming increasingly marked. In eastern Europe, there is a core group of economies, mainly the members (Czech Republic, Hungary, Poland, Slovakia and, from the beginning of January 1996, Slovenia) of the Central European Free Trade Agreement (CEFTA), which have made considerable progress in the transition from central planning to a market economy and, excepting Hungary, have achieved GDP growth rates of 5-7 per cent in the past year (or past two years in Poland and Slovenia). Among the other eastern European countries, Albania has been growing rapidly, and Romania's GDP growth improved sharply in 1995, bringing it into the range of the CEFTA group. There has also been some recovery of GDP growth in Yugoslavia following the success of the February 1994 programme to end hyperinflation. But performance has been much weaker in Bulgaria, and in Croatia and the former Yugoslav Republic of Macedonia (and, almost certainly, in Bosnia and Herzegovina, for which no data are available), GDP continued to fall. Thus, within eastern Europe it is largely the more developed CEFTA countries which are pulling ahead of the economies of south-eastern Europe.

28. The performance of the Baltic States still lags behind that of most of eastern Europe, a reflection of their later start in the process of systemic transformation and the more difficult conditions in which they began their reforms, not the least of which have been the problems of adjusting their economic relations with the countries of the CIS. Nevertheless, a modest rate of recovery is now under way in Lithuania (since 1994) and in Estonia (since last year); but in Latvia there was a further set-back in 1995 (GDP appears to have fallen), partly because of a major crisis in the banking sector.

29. The various members of the CIS display considerable variation in performance, with GDP increasing in Armenia and Georgia (by 5.2 and 2.4 per cent, respectively) and continuing to fall elsewhere, by as much as 12 per cent or more in Azerbaijan, Tajikistan and Ukraine. But for most CIS members the drop in output was much smaller than in 1994. This was most conspicuous in Russia, the dominant economy in the CIS, where GDP fell by some

4 per cent in 1995, against earlier forecasts of 9 per cent and a decline of nearly 13 per cent in 1994. In aggregate, GDP in the CIS probably fell by some 5 per cent in 1995, compared with 15 per cent the year before.

30. The recovery in eastern Europe has been based to a very large extent on the revival of industry. Although the development of the service sector is one of the most important and conspicuous aspects of the transition process, its weight in the economies of eastern Europe is still relatively small. Industry, on the other hand, was excessively large in the eastern economies before 1989, and although parts of the capital stock may be economically redundant, it still had the capacity to recover sooner and more quickly than other sectors. On average, industrial production rose more than 7 per cent in eastern Europe last year (and nearly 6 per cent in 1994), and in several countries by more than 9 per cent. In contrast it continued to fall in most of the CIS and in the Baltic States (although there was some recovery in Lithuania in the second half of 1995).

31. The recovery of eastern European industry has been accompanied by large annual gains in productivity (10-16 per cent in many cases in 1995). These partly reflect the usual increases which occur when spare capacity is brought back into use in response to a recovery of aggregate demand. But for these economies this also signals that a significant part of the existing capital stock still has economic potential and that enterprises are responding to market incentives to exploit it. (In this context it should also be noted that the evidence in some countries is that, although the private sector is playing a leading role in this process, the recovery is not confined to private enterprises.) Productivity gains are also due to general improvements in efficiency, resulting from the restructuring of output, the shedding of redundant labour, and the adoption of new production methods, often in conjunction with investment in new and more up-to-date machinery and equipment. Assessing the relative importance of these various factors is a matter for further research, but it seems reasonable to assume that the supply-side improvements in industry, albeit far from complete, were an important precondition for many of the eastern European countries being able to take advantage of the new opportunities for rapid export growth to the markets of western Europe.

32. National accounts data for 1995 are still preliminary and in many respects incomplete, especially with respect to net trade, but the general picture is that domestic demand was the driving force behind the growth of output in eastern Europe last year - and behind the continuing fall in Russia and the other CIS States. Private consumption, supported by rising real incomes, has been picking up in a number of countries (Czech Republic, Poland, Romania, Slovakia), especially those where productivity growth has been relatively high. But austerity programmes and incomes policies have held consumption back in Bulgaria, Croatia and Hungary. In Russia, however, falling real wages are the major factor behind falling private consumption (-7 per cent in 1995).

33. Although it is difficult to make precise statements about the contribution of the various components of domestic demand to overall growth (because of the often large statistical discrepancies in the national accounts), it does appear that fixed investment is now playing an increasingly important role in the economic recovery of eastern Europe. This is especially so in those countries

where most progress has been made towards restoring macroeconomic stability, with institutional reforms, and more generally, in providing investors with greater confidence in economic and political stability. Fixed investment last year rose by some 13 per cent in Romania, 15 per cent in the Czech Republic, 19 per cent in Poland and 22 per cent in Slovakia. It probably rose in double digits in Slovenia as well. This investment boom, which was already under way in 1994, is partly making up for a previous neglect of maintenance and replacement, but all new investment is likely to play a role in increasing productive efficiency, whether or not it is intended to expand productive capacity. In contrast with eastern Europe, the recovery of fixed investment in the Baltic States is still weak and hesitant, while in Russia capital formation has continued to fall.

34. In strictly national accounting terms, the real trade balance probably subtracted from GDP growth in 1995, with the volume change of imports outstripping that of exports. (The ECE secretariat estimates that the volume of eastern European exports rose 10-12 per cent last year and imports by 13-15 per cent.) But this ignores the dynamic effects of larger volumes of trade on productive efficiency via an improved division of labour resulting from the extension of export markets and the enhancement of production technology through imports of capital goods.

35. Another important development in the transition economies in 1995 was a sharp decline in rates of inflation, and in many cases by much more than was expected a year ago. In 5 of the 11 eastern European countries for which the data are available, the year-on-year rate of increase in consumer prices in late 1995 was in single digits. There was also a marked fall in the rate of inflation in Russia and the other CIS States in 1995. But despite the fall in rates of inflation - Tajikistan and Yugoslavia were the only countries to go against this general movement - the actual rates still remain very high, especially in the CIS countries but also in some of the eastern European countries. In Hungary, Poland, Romania and the Baltic States, annual inflation is proving to be "sticky", in a range of some 25-40 per cent (and even higher in Bulgaria).

36. These rates, although still influenced by periodic changes in administered prices, appear to be more deeply rooted in the structure of these economies and relatively less amenable to standard stabilization policy. Nevertheless, the current rate of inflation in Poland (28 per cent) does not, for example, appear to be a serious constraint at the moment on fixed investment which, together with further institutional reforms, can be expected to weaken the sources of this inertial or structural inflation. The deceleration of inflation in 1995 in eastern Europe was clearly helped by, among other factors, the rise in output and productivity which more than absorbed the increase in unit labour costs.

37. The strong growth of output in eastern Europe has led to a marked slow-down in the fall of employment levels, and in a few countries (Albania, Bulgaria, Czech Republic, and Poland in 1994; Slovakia in 1995) they have started to increase. Most of the new jobs are in the private sector, particularly in services, and there are a few signs - in Poland, for example - that new jobs created in the private sector may be starting to exceed the number lost in the public sector. The share of the private sector in total employment now ranges

from some 36 per cent in Bulgaria to some 60 per cent in Poland. There has also been some decline since early 1994 in the number of people unemployed, but unemployment rates still remain very high: the average rate in eastern Europe at the end of 1995 was about 13 per cent, with most countries in a range of between 9 per cent (Romania) and 18 per cent (Croatia). Outside this range were the Czech Republic (3 per cent) and Yugoslavia and the former Yugoslav Republic of Macedonia, where the rates were exceptionally high.

38. In the Baltic States employment has continued to fall, although less rapidly than in 1994; unemployment remained more or less unchanged in Estonia and Latvia but rose sharply in Lithuania. In Russia and the other CIS States employment has continued to fall and unemployment to rise.

39. Unemployment rates in the CIS are still much lower than in eastern Europe (an average 5.4 per cent against 13 per cent at the end of 1995). This reflects partly problems of statistics but more importantly the slow pace of enterprise reform in Russia and other CIS countries and an incentive structure which does not encourage the adjustment of employment levels in large enterprises.

40. In general there can be little doubt that unemployment is now a major and growing problem in nearly all the transition economies. In the CIS countries the unemployment statistics are still subject to many qualifications, but in general the evidence suggests that actual unemployment is usually much higher than that reflected in the figures for "registered unemployment". Also, the unemployment problem in the transition economies shares features with that in western Europe: first, the unemployment rate for young people is roughly double the average rate (26-40 per cent out of the total unemployed in eastern Europe are young people below the age of 25), and secondly, the number of long-term unemployed people (those without work for more than a year) has continued to grow rapidly, despite the growth of output and the fall in total unemployment. By the third quarter of 1995, the long-term unemployed accounted for nearly half of all the unemployed in eastern Europe.

41. Unemployment is an increasingly painful experience in the transition economies as traditional safety nets have been weakened under the pressures to reduce public expenditure and with the aim of making labour markets more "flexible". Eligibility rules for unemployment benefits have been tightened, and the period of entitlement and the ratio of benefits to average wages reduced. In 1995, the duration of benefits in eastern Europe varied between 6 and 12 months, while the proportion of the unemployed entitled to receive benefits varied from 22 per cent in Slovenia to 58 per cent in Poland. The ratio of unemployment benefits to average wages, the "replacement ratio", ranged from 27 per cent in Slovakia to 37 per cent in Albania. In general, the conditions for the unemployed are much worse in the CIS countries than in eastern Europe.

42. The foreign trade of the transition economies continued to expand rapidly in the first three quarters of 1995, in both value and volume. In eastern Europe and the Baltic States, imports outstripped exports as a result of the recovery of domestic demand, and there was a sharp deterioration in their trade deficits - from $7 billion to $13 billion in eastern Europe and from $0.6 billion to $0.9 billion for the Baltic States. In contrast, both the value

and volume of exports from Russia and the other CIS States grew much faster than their imports, and their trade surpluses increased considerably - from nearly $15 billion to $22 billion for Russia and from $1.5 billion to $3.5 billion for the other CIS States.

43. Western Europe is now the major trading partner of most of the transition economies, taking some 50-70 per cent of their exports and accounting for a similar proportion of imports. But a more recent development has been the strengthening of trade among the transition economies themselves, with the notable exception of intra-CIS trade, the volume of which has probably continued to fall.

44. The rising trade deficits in eastern Europe were the main reason for the general deterioration in their current account balances: in aggregate, the current deficit almost doubled, to $8.8 billion. Exports of goods and services continued to grow - by some 28 per cent on average, in value terms - but imports rose by about one third. Merchandise imports grew especially rapidly and most of the eastern European countries were in deficit on merchandise trade, but this was offset to a significant extent by the growing surplus on invisibles ($4 billion). In contrast the current account surplus of Russia increased to $10 billion in the first three quarters of 1995, all of the improvement (over the same period in 1994) being due to increased merchandise exports.

45. A remarkable feature of developments in 1995 was a tripling of net capital flows into eastern Europe, from $10.6 billion in 1994 to just over $31 billion. This was far more than required to finance the current account deficits, and there were consequently very large additions to foreign currency reserves in most countries. However, most of the funds (nearly 90 per cent) went to just three countries - the Czech Republic, Hungary and Poland. Since most of the funds were private capital, this distribution seems to confirm the view that foreign investors are attracted to economies when reforms and stabilization policies are in place and credible and when the prospects for growth seem reasonably firm. Such large inflows of foreign capital may create problems for domestic monetary control and there is an additional risk of sudden and disruptive outflows of short-term capital. However, the inflows into eastern Europe consist of a wide range of types of capital, from foreign direct investment (FDI), through portfolio investment to medium- and long-term bank credits. Short-term obligations appear to be a small proportion of the total and easily covered by reserves.

46. The outlook for the transition economies in 1996 is as always subject to the many uncertainties mentioned at the beginning of this section, but official expectations, largely formulated before the extent of the slow-down in western Europe became clear, point to a further strengthening of the recovery in eastern Europe to perhaps an average growth rate of some 6 per cent in GDP. Within this aggregate there is some slow-down in those countries with the highest growth rates in 1995 - Czech Republic, Poland, Romania and Slovakia - but except in Romania, this is fairly marginal, with growth rates remaining in the 5-6 per cent range. However, in the countries that lagged in 1995, Governments expect growth to pick up, particularly in Croatia, the former Yugoslav Republic of Macedonia and Yugoslavia. All countries in the region of south-eastern Europe should gain from the suspension of economic sanctions against Yugoslavia

and the improved outlook for security in the area; the former Yugoslav Republic of Macedonia will also benefit from the ending of the Greek embargo on its transit trade. The outlook for Bosnia and Herzegovina is especially uncertain, but if the World Bank reconstruction programme goes ahead, $1 billion of external financing should be available in 1996 as the programme gets under way.

47. Apart from the uncertainties of the reform process itself, an important element of risk in the outlook for 1996 derives from the increasing ties between the eastern and western parts of Europe. Eastern Europe is now very dependent on western Europe as an export market - nearly two thirds of all its exports now go to developed market economies, which for eastern Europe largely means western Europe. Eastern Europe is therefore more vulnerable to a slow-down in western European import demand, and the signs of a deceleration in the growth of industrial production in several eastern European economies in the second half of 1995 may be a sign of such dependence. The high growth countries in 1995 were generally those which have been most successful in raising the share of their exports going to western Europe; the slow-down in their growth rates in 1996 may therefore be greater than currently expected.

48. Similar considerations apply to the Baltic States, where output is expected to grow in 1996, but much less strongly than in the rest of eastern Europe. Exports of the Baltic States to western Europe have been growing rapidly and now account for probably just over 50 per cent of the total. They too will be vulnerable to a more severe slow-down in western Europe.

49. The outlook for Russia and the other CIS States still remains very uncertain. Considerable progress was made in 1995 with stabilizing the Russian economy, and the increasing optimism about the possibility of a return to growth in 1996 seemed to be supported by a recovery of industrial output in the summer and early autumn. But this improvement was checked towards the end of the year, and the decline resumed in the early months of 1996. Nevertheless, the Russian authorities have reached an agreement with the International Monetary Fund (IMF) on a medium-term strategy and on economic policies for 1996, and this has led to the approval by the IMF of an extended fund facility of $10.2 billion over three years. The new strategy continues the stabilization policies pursued in 1995 but also includes a number of important structural reforms. The success of these policies will largely depend on political developments, but the availability of considerable IMF funding, subject to conditionality and close monitoring, may help to keep them on track, despite increasing popular protests against reforms in the run-up to the presidential elections in June. The projected growth rate for 1996 in the medium-term strategy is 2.3 per cent, but none of the variant forecasts made by the Ministry of the Economy, published in January, show positive GDP growth in 1996.

Notes

1/ The recent comprehensive revision of the United States' national accounts does not allow direct comparisons between earlier forecasts prepared for 1995 and the actual outcome. The growth rate of 2¾ per cent is derived from a rough pro rata adjustment of the OECD forecast published in December 1994.

2/ But see Economic Commission for Europe, Economic Survey of Europe in 1991-1992 (United Nations publication, Sales No. E.92/II.E.1).

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REGIONAL COOPERATION IN THE ECONOMIC, SOCIAL AND RELATED FIELDS

Summary of the survey of economic and social conditions in Africa, 1995

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I. OVERVIEW

1. In 1995, Africa experienced, for the second consecutive year, modest economic growth. The gross domestic product (GDP) of the region increased by 2.3 per cent, compared with a revised figure of 2.1 per cent for 1994 (table 1). Despite this modest recovery, GDP growth is yet to keep pace with population growth, as a consequence of which per capita income declined by 0.6 per cent in 1995.

Table 1

African economic indicators, 1990-1995
(Percentage change)

	1990	1991	1992	1993	1994	1995
GDP growth - Africa	0.7	3.0	-0.5	0.7	2.1	2.3
Agriculture production (FAO index 1979-1981 = 100)	127.9	133.9	130.9	135.7	138.6	..
Oil production (millions of tons)	321.4	336.4	343.4	339.2	338.2	..
Mining production index (1990 = 100)	1.0	-4.0	-8.0	-7.0	..	..
Consumer price index (1990 = 100)	16.6	31.5	44.9	37.2	60.6	43.4
Oil prices, Brent crude ($ per barrel)	24.0	20.0	19.3	17.0	15.8	17.1
Export prices index (1990 = 100)	12.4	-9.4	-0.2	-5.2	5.3	6.8
Import prices index (1990 = 100)	4.5	-0.1	3.4	-0.8	4.1	5.2
Terms of trade index (1990 = 100)	7.5	-9.3	-3.4	-4.5	1.2	1.5
Exports ($ billion)	99.2	95.0	92.9	87.3	87.9	97.9
Imports ($ billion)	91.6	90.1	93.6	92.7	94.6	108.9
Current account ($ billion)	-0.1	-1.7	-5.4	-8.5	-0.5	-2.1

Source: ECA secretariat.

2. There were wide differences in performance among group and individual countries, however. The West, Eastern and Southern African subregions registered growth rates in excess of the regional average in 1995, owing to the improved performance in their agricultural and mining sectors. In West Africa, GDP grew by 4.1 per cent in 1995, compared to an increase of only 1.0 per cent in 1994, while in Eastern and Southern Africa it grew, respectively, by

4.8 per cent and 2.9 per cent, as against 4.2 per cent and 2.6 per cent in 1994. GDP growth has been limited to a mere 1.1 per cent in Central Africa on account of continuing poor economic performance in the Congo, Cameroon, Burundi, Rwanda and Zaire. As a group, the least developed countries experienced a market improvement, the first since 1992. Real GDP growth rate for the 33 African least developed countries stood at 2.4 per cent in 1995, against -1.6 per cent, in 1994 (table 2). At the country level, only three countries experienced negative growth rates in 1995 compared to 14 in the previous year, while eight countries exceeded 6 per cent growth in 1995, compared to only two in 1994. With regard to sectoral performances, the growth in regional GDP was derived from the good performance of manufacturing and a modest rebound in the mining sectors.

3. Despite the recovery of the past two years, many of the factors responsible for a weak economic performance in Africa over the years are still at work, as are the development problems and challenges facing the continent. But the prospects of the continent emerging from them are now better than ever.

4. There was a lull in monetary expansion in most African countries in 1995 due in part to reduced recourse to credit, finance deficits and the rise in interest rates, but the excessive liquidity associated with high levels of monetary expansion in previous years was strong enough in some cases to fuel inflation in 1995. In Zaire where deficit financing through money creation was the main determinant of hyperinflation in recent years, money supply contracted greatly in 1995 and, together with rationalization of public finances, succeeded in bringing down the rate of inflation from 9,797 per cent in 1994 to 370.3 per cent in 1995. In Ghana, on the other hand, there was a budget surplus of 52.6 billion cedis, or 1.1 per cent of GDP, in 1995 and further modulations in money supply, but average inflation more than doubled, from 34.2 per cent in 1994 to 70.8 per cent in 1995, due to inadequate levels of food supply, especially during the first quarter of the year, and adverse price effects resulting from the introduction of the value-added tax (VAT) in March 1995. Foreign direct investment (FDI) in Africa, in general, and in the sub-Saharan countries, in particular, is very unstable. After a slight increase in 1994, FDI flows to sub-Saharan African countries declined by almost 27 per cent in 1995, from US $2.9 billion in 1994 to $2.2 billion. Only a few middle-income countries recorded encouraging volumes of inflows over the past two years.

5. Trade performance improved in 1995. Provisional estimates by the Economic Commission for Africa (ECA) show that export earnings increased by 11.1 per cent, compared to 4.9 per cent in 1994. The increase in export earnings can be attributed to a modest increase in oil prices, which fluctuated between $16.4 and $19.2 per barrel in 1995, and the sustained recovery in mineral and metal prices. However, many African producers, it would seem, were unable to take full advantage of the rising export prices for oil, metals and minerals in 1995 due to supply difficulties and structural constraints, political instability and lack of adequate investment in the sectors.

6. Policy reforms have made some impact in terms of economic stabilization, but most African countries have yet to acquire sufficient volume of external resource inflows to stimulate and significantly accelerate their economic

Table 2. Output share and growth rate, by subregion and economic grouping

	Per capita GDP, 1994 (1990 $US)	GDP percentage regional share, 1994	Growth rate at 1990 prices (percentage)						
			1990	1991	1992	1993	1994	1995 a/	1990-1994
Central Africa	438	8.7	0.1	-1.0	-2.4	-5.9	-2.5	-1.1	-3.0
East Africa	190	6.4	2.8	1.1	-1.3	2.5	4.2	4.8	1.6
North Africa	1 249	40.8	2.6	3.5	0.5	1.1	2.9	1.0	2.0
Southern Africa	1 371	27.4	0.2	-0.1	-2.3	1.7	2.6	2.9	0.4
West Africa	362	16.8	-3.4	10.8	1.2	1.4	1.0	4.1	3.5
Sub-Saharan Africa	513	61.4	-0.6	3.0	-1.0	0.3	1.5	3.0	0.9
Sub-Saharan Africa without Nigeria and South Africa	363	30.8	-2.8	6.2	-1.4	-0.2	-0.3	3.0	1.0
Sahel zone	368	5.9	0.7	6.7	3.2	-1.3	1.9	1.9	2.6
Oil exporters	882	46.4	2.9	2.9	0.1	0.6	1.6	2.3	1.3
Non-oil exporters	538	53.6	-1.1	3.1	-1.1	0.8	2.5	2.3	1.3
LDCs	229	16.0	1.1	1.8	-0.0	-2.4	-1.6	2.4	-0.6
Non-LDCs	1 020	84.0	0.6	3.3	-0.7	1.3	2.8	2.3	1.7
Franc zone	574	10.7	-0.7	0.6	-1.9	-0.3	1.5	3.6	-0.0
Mineral exporters	1 034	30.4	0.4	-0.9	-1.7	-1.0	1.5	2.8	-0.5
Beverage exporters	260	10.0	-9.4	13.2	-0.5	1.4	1.8	5.5	3.9
All Africa	657	100.0	0.7	3.0	-0.5	0.7	2.1	2.3	1.3

Source: ECA secretariat.

a/ Estimated.

LDCs = least developed countries.

growth. Net flows of official development assistance (ODA) to Africa declined from $25 billion in 1992 to $23.5 billion in 1994, due to both the growing demand for aid from countries in transition, the reorientation of donor countries' aid policies and the fiscal constraints in donor countries. A very limited number of countries in Africa attracted resources from the international private capital markets. Tunisia and South Africa appear to have fared better than other African countries because of their high level of credit ratings. They also appear to offer the most attractive environment for foreign private investment.

7. The external debt and debt-servicing obligations of Africa continued to pose a major threat to economic recovery in 1995, in the sense that the debt overhang is still having a negative impact on availability of resources. A number of middle-income African countries rescheduled their commercial debt through the London Club, while Nigeria succeeded in debt conversion. Morocco, Ethiopia, Chad, Comoros, and Côte d'Ivoire were granted various cancellations from bilateral creditors.

8. The food situation in some parts of Africa remained a serious source of concern and anxiety in 1995, despite good overall harvests. The region as a whole experienced a food deficit of 19.6 million metric tons in cereals in 1995, while incidence of drought in the third quarter of 1994 and the first quarter of 1995 precipitated famine conditions, affecting some 10 countries in the Northern, Eastern and Southern subregions. For a number of other countries - notably Angola, Burundi, Liberia, Rwanda, Sierra Leone and Somalia - the decline in food production was simply a consequence of civil strife, population displacements and insecurity, since agriculture is reduced largely to subsistence activities.

9. Civil conflicts and political stalemates in governance have continued to disrupt and paralyse production (especially in Burundi, Liberia, Rwanda, Somalia, the Sudan, Zaire and Sierra Leone), with important repercussions on the availability of even the most basic of social services. Endemic instability in countries with huge population movements and displacement has often spilled over into neighbouring countries, disrupting production and economic activities in general, and further paralysing an already overburdened physical infrastructure, notwithstanding considerable humanitarian efforts at rehabilitation, repatriation and resettlement of refugees. High unemployment also remained a major social problem in 1995. A particularly disturbing feature of the unemployment situation is the growing number of street children and young persons (15-24 years old) among the unemployed.

II. SECTORAL PERFORMANCES

10. Growth of output in agriculture - the mainstay of the economy - was lacklustre. The growth rate of value-added in agriculture decelerated from 4.2 per cent in 1994 to 1.5 per cent in 1995. Such a deceleration was much more pronounced in North, Eastern and Southern Africa, with agricultural growth estimated at -0.7 per cent in 1995, as against 6.1 per cent in 1994 in North Africa, and 1.1 per cent and 3.0 per cent in Eastern and Southern Africa, respectively. West Africa performed much better, with value-added in

agriculture growing by 4.2 per cent in 1995, although this represented a deceleration from the 5.8 per cent achieved in 1994. There was an overall improvement in Central Africa's agricultural growth performance, from -1.9 per cent in 1994 to 0.9 per cent in 1995. However, rice production in Africa increased in 1995 from 14.2 million tons in 1994 to 14.9 million tons. Also, the production of roots and tubers, which constitute some 20 per cent of the total food supply in the region, increased by 2.6 million tons or 1.7 per cent: from 154.7 million tons in 1994 to 157.3 million tons in 1995. Livestock production was, however, on the decline in 43 African countries due to the policy of rebuilding cow herds in many drought-affected countries since 1992-1993. The production of pulses, a key part of the diet in many areas around the region, has not shown any significant rise since 1990, remaining roughly between 6.5 million tons and 7.0 million tons, while fruits and vegetable production has increased by less than 2 per cent annually.

11. The manufacturing sector recorded a positive growth rate of 4.2 per cent in value-added in 1995, mainly as a result of better input supplies and improvements in the importation of raw materials for agro-allied industries (see table 3). It performed poorly in Northern Africa in 1995, especially in Algeria and the Sudan, where negative growth rates prevailed in manufacturing value-added (MVA) due in part to internal political difficulties and shortages of foreign exchange for the importation of basic industrial inputs. The growth performance of the sector in West Africa was adversely affected by the unsettled situation of Nigeria where problems of a battered infrastructure, collapsing consumer demand, inflation and internal political difficulties arising from a stalled transition programme have forced manufacturers to cut output and jobs sharply. On average, in the Southern Africa subregion the manufacturing sector continued to perform better than those in other subregions, recording MVA growth rates of 6.9 per cent in 1995, compared with 2.6 per cent in 1994. In South Africa, the largest economy of the subregion, the manufacturing sector recorded its highest growth since 1990, with the motor industry, which includes the manufacture of parts and accessories, being among the fastest growing industries. During the first half of 1995, the manufacturing production index rose by a seasonally adjusted and annualized 12.8 per cent, in comparison to the preceding six months. Capacity utilization in manufacturing also increased steadily in the country, from a low of around 77 per cent in 1992 to a high of approximately 83 per cent in the first quarter of 1995. Another country in the subregion, Namibia, performed relatively better in 1995 than in 1994, with an MVA growth rate of 13.5 per cent, as against 4.1 per cent in 1994. But manufacturing production declined in Zimbabwe due to high input costs, weak domestic demand, loss of competitiveness in textile export markets and cash-flow problems of manufacturing firms.

12. In the mining sector, there was an increase of 2.7 per cent in value-added in 1995, as against -3.7 per cent in 1994 and -0.7 per cent in 1993. As a result of the extensive reforms in the mining sector in recent years, exploration and mining investment have increased in several countries, particularly in precious metals and minerals, including gold, diamonds and other gem stones. But the improved performance in production volumes in 1995 was attributable mostly to oil production, as output figures for major non-fuel minerals during the first three quarters of the year suggest that their total annual production may have increased only modestly, if at all. Output of crude

oil increased by 4.4 per cent in 1995, in comparison with a virtual stagnation in production in 1994, largely because of higher production figures in non-OPEC African countries such as Angola, Egypt and Libyan Arab Jamahiriya.

Table 3. Indicators of manufacturing sector performance, by subregion and economic groupings, 1992-1995

Subregions and economic groupings	Share of MVA in regional MVA (percentage)				Share of MVA in GDP (percentage)				MVA growth rates (percentage at 1990 prices)			
	1992	1993	1994	1995 a/	1992	1993	1994	1995 a/	1992	1993	1994	1995 a/
Total Africa	100.0	100.0	100.0	100.0	15.2	15.1	15.4	15.7	-1.0	-0.1	4.1	4.2
North Africa	39.1	40.1	40.9	41.9	15.0	15.2	15.7	15.7	1.5	1.9	6.6	0.9
Central Africa	6.4	5.8	5.2	4.9	9.0	8.7	8.8	8.6	-10.0	-9.8	-1.4	-0.4
East Africa	4.0	4.2	4.4	4.5	10.9	11.1	11.4	11.5	2.8	4.7	6.1	3.9
Southern Africa	41.3	40.5	40.4	39.8	23.6	23.1	23.2	24.1	-2.8	-0.5	2.6	6.9
West Africa	9.2	9.4	9.2	9.0	8.1	7.8	7.7	8.2	1.5	-2.4	1.9	9.8
Sub-Saharan Africa	61.7	60.9	60.2	59.2	15.0	14.8	14.9	15.4	-2.3	-1.1	2.4	6.4
LDCs	10.4	10.5	10.1	9.9	9.4	9.3	9.6	9.7	0.1	-4.3	2.1	3.4

Source: ECA secretariat.

a/ Estimated.

LDCs = least developed countries.

MVA = manufacturing value-added.

/...

III. THE EXTERNAL SECTOR

13. Africa has failed to take advantage of the dramatic growth in world trade, due to its diminutive and declining share in world trade and its continued dependence on primary commodities. The effect of the failure to diversify and graduate to secondary and tertiary commodities has increasingly marginalized Africa's share of world trade and trade among developing countries. Between 1990 and 1995 Africa's share in world trade declined by a staggering 30 per cent, from 3.1 per cent to 2.2 per cent. The loss in market share is even more spectacular relative to trade of the developing countries, declining from 11 per cent in 1990 to 6 per cent in 1995, a loss of 45 per cent.

14. In spite of this, the value of exports in 1995 was $98 billion, an increase of 11 per cent over the 1994 level. The growth in the export receipt was due to an increase in volume and higher prices for some exports. On the whole there was a 4 per cent increase in volume which, along with 7 per cent increase in unit value, jointly contributed to the higher foreign exchange earnings. The increase in prices did not cover the whole range of Africa's exportable commodities. Mineral prices were generally on the upward trend, while for other commodities the increase was mediocre. The aggregate price index for metals were 19 per cent higher than their 1994 levels, reflecting higher unit values for a spectrum of products, of which copper was the star performer with a price increase of more than 27 per cent. Beverage prices increased by less than 1 per cent, owing to slight increases in coffee (6 per cent) and cocoa (3 per cent) but overshadowed by the continued decline in the price of tea, which fell by more than 10 per cent. Food prices increased by an average of 8 per cent, reflecting tight supply conditions. Real petroleum prices continued to experience pronounced instability in 1995 but averaged $17 per barrel, an increase of 8 per cent over the previous year. The higher unit value, along with a 4 per cent growth in volume, pushed up the export earnings of the oil-exporting countries by 12 per cent in 1995, relative to 1994.

15. The commodity composition of the region's exports continue to be dominated by primary commodities and the import of manufactured goods. Most countries continue to rely on the same primary commodities they did in the 1960s and 1970s. Countries heavily dependant three decades ago on the export of coffee and cocoa continue to source their foreign exchange earnings from these commodities in the 1990s, as do the exporters of petroleum and minerals. The failure to transform the nature and content of their exportable commodities has had a detrimental impact on their foreign exchange earnings and their market share.

16. Despite the 11 per cent increase in the value of exports, the trade balance registered a deficit of $11 billion, on account of the 15 per cent increase in the value of imports. In a similar vein, the service balance recorded a deficit of $8.4 billion. Net factor incomes were among the major factors responsible for the deficit in service accounts amounting to an outflow of $13.6 billion on a net basis, and are indicative of the dependency of African countries on external capital. The total of these payments pushed the current account deficit to $16.8 billion, an increase of 46 per cent over the previous year. This deficit would have been much larger had it not been tempered by an inflow of $16.3 billion in unrequited transfers.

Table 4. Balance of payments, 1990-1995

(Billions of US$)

	1990	1991	1992	1993	1994	1995
Exports f.o.b.	99.2	95.0	92.9	87.3	87.9	97.9
Imports f.o.b.	91.6	90.1	93.6	92.7	94.6	108.9
Trade balance	7.6	4.9	-0.7	-5.4	-6.7	-11.0
Services net	-11.6	-10.7	-8.7	-10.1	-7.8	-8.4
Unrequited transfers	17.6	17.7	19.5	18.8	15.9	16.3
Income net	-14.6	-15.6	-13.6	-13.1	-12.8	-13.6
Current account	-1.0	-3.7	-3.5	-9.8	-11.4	-16.7
Capital account, including errors	-12.0	-1.2	-3.0	-4.2	-2.6	-1.2
Overall balance	-13.0	-4.9	-6.5	-14.0	-14.0	-17.9
Change in reserves (-increase)	-6.8	-9.7	-1.4	-4.8	-4.5	0.4
Net external financing	19.8	14.6	7.9	18.6	18.5	17.5

Source: IMF, World Economic Outlook and International Financial Statistics (Washington, D.C.), various years; Economic Intelligence Unit; national sources; and ECA secretariat estimates.

IV. THE SOCIAL SECTOR

17. The crisis in the social sector remained severe in most African countries in 1995, despite the modest economic recovery that is taking place on the continent. This situation once again highlights the critical needs for the African countries to restructure and reorient their policies towards enhanced social development and poverty reduction. The health sector continues to bear a disproportionate burden of the ongoing socio-economic crisis. In many countries, the exodus of doctors, nurses and technicians, compounded by declining or stagnating public expenditure on health, has culminated in a virtual collapse of the health infrastructure. The health policies of most African countries are yet to be grounded in preventive and primary health care (PHC), and a large proportion of public expenditure on health, sometimes as much as 60 per cent, continues to go for curative services in a few teaching hospitals. The district and community focus in health-care provision, which underpins the framework of the Africa Regional Office of the World Health Organization (WHO) for health policy development and for achieving health for all by the year 2000, is yet to receive universal endorsement in Africa.

18. In the education sector, the crisis has intensified. Rapid population growth rates and severe cut-backs in public expenditure, often in connection with debt rescheduling and economic restructuring, among other factors, have culminated in a near collapse of the educational infrastructure. Public expenditure on education in sub-Saharan Africa is the lowest in the world. The most severe cuts in education have been made in capital and recurrent expenditures for new construction, supplies, furniture, equipment for science laboratories and for repair and maintenance. In the light of the continuing socio-economic crisis, rehabilitation of decaying educational institutions has become daunting for most countries. Moreover, the public expenditure for all levels is disproportionately skewed in favour of higher education. Nevertheless, this has not spared the infrastructure of those institutions from dilapidation and decay. The quality and propensity of education were further aggravated by low pay and poor working conditions; the flight of teachers and industrial disputes have kept classrooms and laboratories closed for months, if not years. On the other hand, data from many African countries indicate that at the primary level, there is practically no funding from central Governments except for teachers' salaries and allowances. As a result, non-formal education and literacy programmes have not grown fast enough to compensate for the shortfalls in the formal educational system. In addition, the surge in unit costs is not accompanied by a marked improvement in the quality of education as a result of devaluation and rising inflation rates. Consequently, the contribution that education is expected to make to Africa's recovery and socio-economic development is not yet clearly on the horizon.

19. The problem of unemployment remains critical in Africa, particularly among educated people, including university graduates. The implications of large numbers of unemployed educated youth and university graduates are serious for Africa's social and political stability. The number of refugees and displaced persons in Africa remains extremely high. About 7 million are directly categorized as refugees. This does not include many internally displaced persons, forced to flee their homes but not registered in camps or with any institutions, nor persons who have privately sought asylum in other countries. The primary causes of this phenomenal wave of human displacement are political unrest (ethnic conflicts, civil wars), drought and famine. The latter is responsible for large-scale displacement of persons now termed "environmental refugees".

20. Women are increasingly becoming the hub of development and the main income earners for a majority of households in Africa, particularly in agriculture, where they play a key role in food production activities as well as traditional domestic chores. Still, in many African countries, cultural traits and taboos continue to underpin the marginalization of women in the development process, manifested by their low rates of participation in education and the labour force, their relatively high unemployment rate in the formal sector, and their lack of access to credit facilities for investment in self-employment activities. These are some of the constraints that still inhibit gender equality in the African region, and it is to be hoped that genuine efforts will be made by African Governments and peoples and their development partners to enhance the status of women and improve their participation in the development process, within the framework of the Beijing Declaration and the Platform for Action. 1/

Table 5. Some health indicators in selected African countries

Country	Percentage of population with access to safe water, 1990-1995		Percentage of population with adequate sanitation, 1990-1995		Percentage of population with access to health services, 1985-1995		Percentage of fully immunized 1-year-old children, 1990-1994			
	Urban	Rural	Urban	Rural	Urban	Rural	TB	DPT	Polio	Measles
Algeria	96	60	93	61	100	95	92	72	72	65
Egypt	97	61	80	26	100	99	95	90	91	90
Cameroon	57	43	64	36	44	39	46	31	31	31
Kenya	67	49	69	81	..	40	92	84	84	73
Namibia	87	42	77	12	87	47	100	79	79	68
Nigeria	63	26	40	30	85	62	46	41	35	41
Niger	46	55	71	4	99	90	32	20	20	19
Mozambique	44	17	61	11	100	30	78	55	55	65
Uganda	47	32	94	52	99	42	100	79	79	77
Zaire	37	23	46	11	40	17	43	29	29	33

Source: UNICEF, The State of the World's Children, 1996 (New York, Oxford, 1996).

V. MAIN POLICY DEVELOPMENTS IN 1995

21. African countries undertook major domestic reform measures in 1995, concerning fiscal, monetary and trade policy, with the objective of reducing governmental intervention in the economy. The emphasis in several of the reform programmes in Africa hinges on incentives for savings and measures to stimulate investment and the empowerment of the private sector. Indeed, financial-sector reforms in countries such as Kenya, Nigeria, Uganda and Zambia included the strengthening of the regulatory framework and prudential guidelines for banking and non-banking financial institutions, calculated to safeguard public confidence and streamline the operational viability and effectiveness of the financial sector. Privatization and commercialization of poorly run public enterprises was also contemplated in some countries, although concrete achievements and outcomes fell far short of plans in many cases.

22. Fiscal policy in the majority of African countries centred on the persistent problem of huge budget deficits, the financing of which contributed to inflation and inflationary expectations in the economy. There is an increasing realization in African countries that greater fiscal discipline is essential in controlling inflation which, in the past, was a major factor in the stagnation of many African economies and falling standards of living. Some Governments introduced measures designed to improve the productivity of public expenditure and investment through prioritization, streamlining and rationalization of the government budget. Tax reform was a key component of the economic stabilization and revenue-generation programmes of many Governments, involving rationalization of the tariff structure and a lowering of import

duties and excise taxes with a view to discouraging evasion and limiting disincentive effects; fiscal decentralization policies, including the devolution of tax collection to lower levels of government, and the introduction of value-added tax (VAT) and presumptive taxation in order to broaden the tax base - e.g., in Ghana, Nigeria and Zambia.

23. In the mining sector, the deregulation and liberalization that began in African countries in the late 1980s continued in 1995, with some Governments introducing new land and mineral legislation and fiscal reforms aimed at enhancing the role of the private sector. Particular attention was given to issues such as the degree of public-sector participation in the development of mineral resources; the proper balance between national and foreign private sectors, including the role of small and medium-sized enterprises; and, the appropriate regulatory framework for the encouragement of foreign investment. Emphasis is increasingly placed on the integration of the mineral sector with other production sectors and the service subsector at the national, subregional and regional levels, and on avoiding damage to the environment.

24. Price support policies were discontinued in a few African countries in 1995, in favour of price and exchange rate liberalization aimed at ensuring remunerative producer prices and productivity incentives. The liberalization of foreign exchange rates has resulted in significant creeping depreciation of currencies and the narrowing of the differential between "official exchange rates" and "parallel rates". As of mid 1995 nearly 17 African countries had adopted an "independently floating" exchange rate regime; 7 were on a "managed float" system; 5 on a "composite currency basket" system; and 29 were still on a "single currency reserve system", with the largest of these in the CFA franc zone. A number of African countries, including Kenya, United Republic of Tanzania, Uganda and Zimbabwe, acceded to article VII of the IMF Articles of Agreement, thereby committing themselves to the non-reimposition of restrictions on transactions on the current and, possibly, capital accounts.

25. For the social sector, there has been a marked and salutary momentum towards democratic forms of governance and popular participation. The peace agreement in Angola and the democratic elections in Algeria, Côte d'Ivoire and the United Republic of Tanzania, which followed those in the Congo, where the transfer of power to elected governments took place in conditions of relative peace and without bloodshed, are powerful portents of a more peaceful political milieu on the continent.

VI. TRENDS AND PROSPECTS FOR 1996

26. Overall growth prospects in Africa indicate that the region has begun to gather momentum towards the recovery evident in the global economy. The capacity of African societies and economies for real and sustained growth are being increasingly realized, as most economic policies are now focused on the creation of an enabling environment for the private sector and efficient operation of the market economy.

27. Barring adverse weather conditions, the progress made in enhancing political and social stability in some countries and the benefits accruing from

the impact of domestic economic-policy reforms, coupled with favourable developments in the international economic environment, lead to estimates of regional growth in output of 2.9 per cent in 1996, as against 2.3 per cent in 1995. The efforts to implement more prudent fiscal and monetary management, so as to reduce macroeconomic imbalances, will contribute to lower inflation in several countries and a return of investors' confidence.

28. Total agricultural production is expected to increase by more than 3 per cent in 1996. This encouraging prospect is based on good distribution of precipitation on the continent as a whole, in particular easing the drought conditions in North Africa, drought-prone Southern Africa and countries in the Horn of Africa. The manufacturing subsector is expected to register growth in 1996, on account of the expected good performance in agriculture. Given the changes in the operating environment and the substantial reforms that have taken place in the mining sector in many African countries, a considerable boost to foreign investment seems likely in the sector. In any case, in 1996 a lot will depend on the evolution of commodity prices and world demand.

29. Globalization and liberalization present a number of potential challenges and opportunities to Africa. The ability of African countries to take advantage of the emerging opportunities in world markets depends crucially on their ability to foster the development of internationally competitive industries which can meet exacting standards of cost, quality, reliability and delivery schedules. The supply capacities of African countries, which are very weak for a variety of reasons, are likely to be the major constraints on their ability to exploit the opportunities arising from globalization. In particular, the private enterprise sector, which is the key agent of development, is not well developed in most African countries, and its growth is constrained by shortages of capital and of entrepreneurial, managerial, technical and marketing skills. Consequently, African countries will face intensified competition in their major export markets in the industrialized countries.

30. A lasting solution to the vexing issue of debt needs to be sought both by the debtors and creditors. In principle, debtor countries should strive to increase their foreign-exchange earnings and service their debt, but the immediate prospect does not render this option viable. Export revenues, already inadequate, have failed to register the level of growth that would enable African countries to effectively address the worsening debt burden. In the short and medium term, the onus of innovating debt reduction mechanisms rests on the creditor nations.

31. More than any other region, Africa is heavily dependent upon external finance to fund trade deficits, supplement governmental budgets and finance investment. With declining ODA flows and difficulties associated with debt servicing, African countries should encourage non-debt-creating external resource flows. Since private capital flows are becoming a major source of financing for developing countries, African countries that seem to be involved in a process of adjusting their financial structures and liberalizing their economies are likely to attract foreign resources, both for portfolio, and more particularly, direct investment. Creation of domestic capital markets, as complementary measures to the process of economic liberalization and privatization, is essential if the countries need to broaden and improve the

savings/investment process. But the most important prerequisites for the successful mobilization of foreign and domestic resources are confidence in the financial system and appropriate macroeconomic policies, a well-established and clear legal and regulatory framework, a transparent and non-distortionary taxation system, a stable domestic financial system, and adequate infrastructure.

32. Mobilization of domestic financial resources has become a central issue in the current vision and strategy of African development. With declining ODA flows and difficulties associated with debt servicing, African Governments need to provide the necessary resources to finance the additional expenditure by increasing the supply of investable domestic resources, creating an environment conducive to the retention of savings within their countries, reversing capital flight, reducing inefficiency, and above all, by encouraging savings through appropriate policies and the necessary institutional mechanisms. Fiscal policy - especially tax policy - has an important role to play in increasing governmental revenue and creating an environment conducive to resource mobilization. Stabilization of prices and exchange rates would ensure positive rates of return on domestic assets, while a more aggressive drive by the formal financial institutions through intensive branch expansion, the broadening of the menu of saving instruments and the forging of strong linkages with the informal financial institutions, would have a positive impact on the volume of resources mobilized. The development of capital markets could supplement and enhance domestic resource mobilization.

Notes

1/ *Report of the Fourth World Conference on Women, Beijing, 4-15 September 1995* (A/CONF.177/20), chap. I, resolution 1, annexes I and II.

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REGIONAL COOPERATION IN THE ECONOMIC, SOCIAL AND RELATED FIELDS

Summary of the survey of economic and social conditions in Asia and the Pacific, 1996

SUMMARY

Based on the detailed analysis in the Economic and Social Survey of Asia and the Pacific 1996, the document provides an overview of recent economic performance and policy reforms in the economies of the ESCAP region in the light of major developments in the world economy. It also examines two issues of significant concern: enhancing the role of the private sector in economic development and the role of public expenditure in the provision of social services.

The ESCAP region has benefited from several positive developments in the international economy. World output recovered significantly in 1994 following the recession of the early 1990s and registered a growth rate of 2.6 per cent in 1995. The volume of world trade, which grew at 9.5 per cent in 1994, the fastest rate in many years, was followed by a further expansion of 7 per cent in 1995. The region received a considerable share of accelerating flows of private capital, including foreign direct investment. However, there are some concerns, including the declining trend in official development assistance, which plays a substantial role in financing development in a large number of disadvantaged economies.

A combination of favourable developments and sustained domestic policy reforms enabled the developing ESCAP region to record a strong growth performance in 1995, averaging 7.8 per cent. As usual, there has been considerable divergence among countries. The growth rates achieved by most of

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the least developed countries and island economies remained well below the regional average, while negative growth persisted in the Central Asian republics.

In most countries, the policy stance remained focused on liberalization and deregulation. In varying degrees, the reforms have sought to bring about greater openness in foreign trade, investment and financial sector policies, to increase domestic savings and investment, to maintain price stability, to reduce fiscal deficits and to encourage the private sector to play a greater role. The reform measures have brought to the fore new policy challenges, particularly for the management of key macroeconomic variables such as price level, interest rate, money supply and exchange rate.

Enhancing the role of the private sector in development has been a cornerstone of reform programmes. Towards that end, Governments have tried to strengthen the legal framework for private sector transactions. They have introduced fiscal reforms with the aim of reducing the tax burden for the private sector, liberalizing and deregulating the financial sector so as to increase the access of the private sector to loanable funds at market-determined interest rates. They have set up institutional mechanisms for incorporating private sector concerns in policy-making and they have provided support for the development of small and medium-sized enterprises. The analysis draws attention to the need for further improvements in the legal framework for property rights, enforcement of contracts, competition policies and synergy among measures of support for small and medium-sized enterprises.

While promoting the private sector, the countries in the region have continued to emphasize the role of the public sector in the provision of social services. In most countries, the proportion of public expenditure allocated to social sectors has exceeded 20 per cent and there have been considerable improvements in the field of education, health, water supply and sanitation over the past decade. However, there are several issues to which greater attention needs to be paid. Those relate, inter alia, to equity in the provision of services between income classes, regions and gender, cost-effectiveness in the delivery of services, a mobilization of greater resources for the social sector as well as intra-sectoral priorities in the allocation of resources, improvements in the quality of services, and the closer involvement of the private sector, non-governmental organizations and local communities in the delivery of services, as well as establishing and maintaining facilities.

The Commission may wish to urge member Governments to take into account the analysis contained in the present document and in the Economic and Social Survey of Asia and the Pacific 1996 in formulating their national policies. The Commission may also wish to recommend further studies on comparative experience in (a) economic management in the new environment of international openness, competitiveness and the greater role of the private sector; and (b) policies to improve the equity, quality and cost-effectiveness of social services.

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I. WORLD ECONOMIC DEVELOPMENTS AND THE ESCAP REGION

1. World economic recovery, which strengthened in 1994, stayed on course in 1995. The rate of growth in world output, in fact, accelerated slightly in 1995 to register 2.6 per cent compared with 2.5 per cent in 1994. Among the industrialized countries, the average rate of economic growth in the European Union accelerated from 2.6 per cent in 1994 to 2.7 per cent in 1995 as a result of accelerated growth in France, Germany and Italy. However, owing to some slowing of growth in the United Kingdom of Great Britain and Northern Ireland, the United States of America and several other industrialized countries, the average rate of growth for all industrial countries decelerated slightly. The average rate of economic growth in the developing countries also decelerated slightly, largely because of a sharp deceleration in Latin America. On the other hand, the rate of output decline experienced by the economies in transition over the past several years slowed substantially. This outcome reflected the positive rates of economic growth posted by several economies in Eastern Europe.

2. The short- to medium-term prospects for the world economy remain optimistic. Current forecasts show world economic growth accelerating to rates above 3 per cent in 1996 and 1997. Japan's economy, which has registered insufficient recovery so far, was expected to recover fully, with a growth rate of at least 2 per cent in 1996. An improvement in the average growth rates of both the industrialized countries and the developing countries is thus expected to push the world average rate of economic growth to above 3 per cent in 1996.

3. World output gains took place within a generally prevailing stable macroeconomic environment. The rate of inflation in the industrialized countries remained at around 2 per cent in both 1994 and 1995. Early in 1995, there was some apprehension that the high-speed economic recovery observed in several industrialized countries in 1994, particularly in Canada, the United Kingdom and the United States, could lead to a re-emergence of inflation. That could prompt a sharp policy brake to be applied, such as a raising of interest rates, that could prematurely abort economic recovery. This did not happen, however, and a slow but steady pace of economic growth in an environment of price stability has been achieved.

4. Continuing high rates of unemployment in most of the industrialized countries remain a matter of concern. The question arises whether the continuation of strict monetary policy regimes as anti-inflation measures could have retarded growth in investment, output and employment. Persistent large budget deficits in most industrial countries have also remained a constraint on the growth of savings and investments in the industrial economies. Whether a more liberal stance of monetary policy could have stimulated economic growth and reduced unemployment rates remains debatable. The prevailing high unemployment rates in the industrialized countries, however, tend to have adverse implications for international economic and trade relationships. Thus, imports, especially from the developing countries, are often blamed for the prevailing unemployment and are frequently the justification given by countries for seeking trade protection, although there is no firm evidence that international trade has any significant effect on unemployment rates in these countries.

5. The world economic recovery in 1994 and 1995 was accompanied by a rapid expansion in world trade. Thus, in 1994, the volume of world trade grew at 9.5 per cent, the fastest rate in many years. The rate of growth moderated somewhat in 1995 to an average of 6.9 per cent, a rate higher than any time between 1989 and 1993. Forecasts indicated similar high rates of growth during 1996 and 1997. Demand for imports in the industrialized countries, which account for around 70 per cent of world trade, has been the main determinant of overall growth in world trade volume. An expansion of imports in the developing countries, especially in Asia and Latin America, also contributed to growth in world trade. The rate of expansion in world trade has been faster than the rate of growth in world output in past years, resulting in a greater proportion of world output traded internationally. The recent rapid growth in world trade has further accelerated the process as part of an increasing globalization of economic activities.

6. Economic recovery and growth in world trade have had a favourable impact on the prices of several groups of non-fuel primary commodities. Prices of commodity groups such as tropical beverages, vegetable oil seeds and oils, and minerals and metals recovered substantially in 1994 and 1995 from the prevailing downtrend since 1989. The recovery, however, is not expected to be sustained over the medium term. Forecasts indicated slow successive declines in 1996 and 1997. The prospects of export earnings of commodity-dependent economies thus remain clouded.

7. Different forms of international private capital flows such as bond issues, equities, syndicated bank loans and foreign direct investments have registered considerable increase in recent years. Although the developing countries have received an increasing share of the total flows, their overall share in the total still remains relatively low, and most of the inflows remain concentrated in a small number of developing countries. There has been a decline in official development assistance flows to the developing countries over the past two years, which is a matter of concern for the world's poorest countries.

8. The growth and the current vast size of the international capital markets, along with the ease of capital mobility across borders, have come to exert considerable influence on national monetary and exchange rate policies, occasionally threatening the stability of either one or the other. That has required close coordination of macroeconomic policies among major industrial countries to prevent the harmful effects on national economies of any adverse market reactions to actual or perceived changes in national economic situations and associated policies.

9. Such policies have remained mostly anchored in maintaining monetary stability and fighting inflation. The exchange rate has thus borne the major burden of economic adjustments and short-term capital movements. The exchange rates among major currencies have therefore fluctuated considerably with worldwide repercussions. Countries failing to adjust in time have faced the risk of a crisis brought on by market reactions to any prevailing maladjustments, as was illustrated by the Mexican peso crisis late in 1994.

10. The recent developments in the world economy have had a positive impact on the developing countries of the Economic and Social Commission for Asia and the

Pacific (ESCAP) region in several ways. The ending of the recessionary downturn in the industrial countries has favourably affected the growth in exports from the region, which is of crucial importance to these economies. The region has also received a considerable inflow of foreign direct investment and other financial flows, although these remained mostly concentrated in a few countries. The recent decline in international interest rates will reduce borrowing costs and further induce capital inflow.

11. However, several concerns remain. These include the speedy implementation of the agreements reached at the Uruguay Round of multilateral trade negotiations and a satisfactory resolution of pending trade-related issues. The declining trend in official development assistance has been a major concern to a large number of disadvantaged economies of the region. The increasing globalization of financial markets, to which the markets of the region's developing countries are becoming increasingly linked, poses new policy challenges to prevent externally induced instability in the domestic economy. The recent fluctuations in exchange rates among major international currencies have also evoked concern, though their adverse impacts have generally been limited.

II. MACROECONOMIC PERFORMANCE AND POLICIES IN THE ESCAP REGION

12. The economies of the developing ESCAP region in South Asia, South-East Asia and East Asia had yet another year of strong economic growth performance in 1995. Their average rate of growth had, however, decelerated slightly from 8 per cent in 1994 to an estimated 7.8 per cent in 1995. A further small deceleration is expected to continue through 1996 and 1997, partly to allow some of the economies a breathing space to overcome constraints (such as shortages of labour, skills and infrastructure) that have emerged as a result of years of rapid growth.

13. Among the East Asian economies, China's economic growth rate slowed from 11.8 per cent in 1994 to 10 per cent in 1995, while that of Hong Kong remained stable at 5.5 per cent. The Republic of Korea, on the other hand, had an accelerated growth rate at 9.3 per cent in 1995 compared with 8.4 per cent in 1994. Mongolia, an economy in transition, achieved a remarkable economic recovery with rates of economic growth of 2.1 and 3.5 per cent in 1994 and 1995, reversing the output contraction that the economy experienced in the early 1990s (table 1).

14. In South-East Asia, the average rate of growth accelerated slightly from 7.9 per cent in 1994 to 8 per cent in 1995 largely because of the noticeably better performance of the Philippines and Viet Nam. With the exception of Singapore, which experienced a percentage point drop in its growth rate in 1995, other countries of the subregion sustained or slightly accelerated the rates of growth in 1995 compared with those in 1994. Five of the South Asian countries maintained a moderate rate of growth, averaging 5.5 per cent in 1995.

Table 1. Selected economies of the ESCAP region: growth rates and inflation, 1993-1995

(Percentage)

		Gross domestic product	Inflation Rate a/
Least developed countries			
Bangladesh	1993	4.5	1.3
	1994	4.6	1.8
	1995	5.0	4.0
Bhutan	1993	6.3	13.6
	1994	6.5	9.7
Cambodia	1993	4.3	114.3
	1994	4.9	26.1
Lao People's Democratic Republic	1993	5.9	7.4
	1994	8.0	6.7
	1995	7.0	16.0
Maldives	1993	6.2	20.2
	1994	5.5	20.0
Myanmar b/	1993	5.9	31.8
	1994	6.8	24.1
Nepal	1993	2.9	8.9
	1994	7.0	8.9
	1995	2.6	8.0
Pacific island economies			
Cook Islands	1993	1.7	7.3
	1994	1.5	2.8
Fiji	1993	1.8	5.2
	1994	5.2	1.2
	1995	2.7	..
Kiribati	1993	-2.8	6.1
	1994	-0.4	5.1
Papua New Guinea	1993	16.6	5.0
	1994	3.0	2.9
	1995	-4.6	16.1
Samoa	1993	6.0	1.8
	1994	-7.1	18.4
Solomon Islands	1993	4.4	9.2
	1994	4.2	13.0
Tonga c/	1993	2.8	3.1
	1994	5.7	2.4
Pacific island economies (cont'd)			
Tuvalu	1993	8.7	1.5
	1994	2.6	1.5
Vanuatu	1993	4.0	3.6
	1994	2.0	2.3
Economies in transition d/			
Armenia	1993	-9.9	1098.0
	1994	-2.0	5060.0
	1995	5.2	280.0
Azerbaijan	1993	-13.5	1230.0
	1994	-17.2	1760.0
	1995	-17.4	510.0
Kazakstan	1993	-12.8	1760.0
	1994	-25.0	1980.0
	1995	-8.9	280.0
Kyrgyzstan	1993	-17.4	1290.0
	1994	-26.0	380.0
	1995	-6.2	150.0
Russian Federation	1993	-12.0	940.0
	1994	-15.0	320.0
	1995	-4.0	230.0
Tajikistan	1993	-21.0	2240.0
	1994	-12.0	340.0
	1995	-12.4	500.0
Turkmenistan	1993	7.8	1730.0
	1994	-12.0	2810.0
	1995	-7.5	..
Uzbekistan	1993	-3.5	1330.0
	1994	-4.0	1650.0
	1995	-0.5	420.0
South Asia			
India	1993	4.3	7.3
	1994	5.3	10.3
	1995	5.7	8.0 e/
Iran (Islamic Republic of)	1993	5.0	22.9
	1994	3.0	35.2
	1995	5.1	..

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Table 1. (continued)

(Percentage)

		Gross domestic product	Inflation Rate a/
South Asia (cont'd)			
Pakistan	1993	2.3	9.7
	1994	3.8	11.2
	1995	4.7	12.9
Sri Lanka	1993	6.9	11.7
	1994	5.6	8.4
	1995	5.4	9.1
South-East Asia			
Brunei Darussalam	1993	0.5	4.3
	1994	1.8	2.4
Indonesia	1993	6.5	9.2
	1994	7.3	9.2
	1995	7.1	10.0
Malaysia	1993	8.3	3.6
	1994	9.2	3.7
	1995	9.6	3.5
Philippines	1993	2.1	7.6
	1994	4.3	9.0
	1995	5.3	8.1
Singapore	1993	10.1	2.3
	1994	10.1	3.1
	1995	9.0	2.2
Thailand	1993	8.2	3.3
	1994	8.5	5.0
	1995	8.6	5.8
Viet Nam	1993	8.1	5.3
	1994	8.8	14.4
	1995	9.5	14.9
East Asia			
China	1993	13.4	14.7
	1994	11.8	21.7
	1995	10.0	15.0
Hong Kong	1993	5.8	8.5
	1994	5.5	8.1
	1995	5.5	8.5
Mongolia	1993	-1.3	268.4
	1994	2.1	87.6
	1995	3.5	28.0
Republic of Korea	1993	5.8	4.8
	1994	8.4	6.2
	1995	9.3	5.0
Developed economies			
Australia	1993	4.0	1.8
	1994	4.9	1.9
	1995	2.1	4.6
Japan	1993	-0.2	1.2
	1994	0.6	0.7
	1995	0.7	0.0
New Zealand	1993	5.0	1.4
	1994	4.3	1.7
	1995	2.2	2.3

Sources: International Monetary Fund, International Financial Statistics, vol. XLVIII, No. 9 (September 1995) and World Economic Outlook (October 1995); Economic and Social Survey of Asia and the Pacific 1995 (United Nations publication, Sales No. E.95.II.F.10); Asian Development Bank, Key Indicators of Developing Asian and Pacific Countries 1995 (Oxford University Press, 1995) and Asian Development Outlook 1995 and 1996 (Oxford University Press, 1995); Intra-State Statistical Committee of the Commonwealth of Independent States (Moscow), Economy of the Commonwealth of Independent States in 1995: Express-Review (January 1996); and national sources.

Note: Data for 1994/1995 are estimates.

a/ Refers to changes in the consumer price index.

b/ GDP at 1985/86 producer's prices.

c/ Real GDP at factor cost.

d/ GDP or net material product.

e/ Estimate based on changes in the wholesale price index.

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15. The further small deceleration in the average growth performance of these economies in 1996 and 1997 is expected to come largely from a slow-down in China and the Republic of Korea and a marginal deceleration in the South-East Asian economies. China's economic growth rate is expected to stabilize around 9 per cent in 1996 and 1997; that of the Republic of Korea could also drop by at least two percentage points. The average growth rate in the South-East Asian economies could also be marginally lower at 7.6 per cent compared with the 8 per cent rate of growth in 1995. The average rate of growth in the South Asian economies, on the other hand, is expected to accelerate moderately from 5.5 per cent in 1995 to above 6 per cent in 1996 and 1997, with a slow rise in the growth rates in India and Sri Lanka and a considerably improved rate of growth in Pakistan. The three developed countries of the region are also expected to improve their average growth performance in 1996 and 1997 principally as a result of a full recovery in the Japanese economy (table 2).

16. The performance and prospects of the region's least developed countries, the Pacific island economies and the economies in transition have remained less than satisfactory in most cases. Some of the least developed countries such as Bangladesh, the Lao People's Democratic Republic and Nepal have improved their growth performance in recent years but, for most of them, the rates of growth fell far short of what is required to alleviate their extreme economic hardship. In the Pacific island economies, with a few exceptions, growth rates hardly exceeded 2 per cent and their vulnerability to exogenous shocks remained as serious as ever. The economies in transition, especially those of Central Asia and the Russian Federation, continued to suffer from a severe economic plight as most of them were still experiencing output contraction in 1995. However, the rate of decline in comparison with earlier years became pronouncedly less, and some of them even showed positive signs of a recovery towards the end of 1995 that could last into 1996 and beyond. The most spectacular appears to have been the success of Armenia in posting a high positive rate of growth in 1995.

17. Macroeconomic stability and containment of inflation have been a concern for all groups of economies in the region, although the nature and intensity of the problems encountered by various groups of economies differed widely. The average rate of inflation among the developing countries listed in table 2 fell by two percentage points in 1995 from the previous year as most countries put in place anti-inflationary policies. In South Asia, the average rate of inflation has been coming down as a stronger commitment to economic reform and stabilization is gaining hold. Except in Bangladesh, however, the rates remained relatively high, and the average rate of inflation above 8 per cent is likely to persist at least into 1996.

18. In South-East Asia, the average rate of inflation is expected to remain within the 5 to 6 per cent range, with considerable divergence among individual economies. Inflation rates in Malaysia, Singapore and Thailand have traditionally remained low. Some acceleration in 1994 evoked prompt policy responses in all three countries to restrain inflation to levels where it could not pose a serious threat. The Philippines achieved success in reducing its inflation rate to a single-digit level in 1994. It is expected to go down further to 8 per cent in 1995 and lower in the next two years. Although the inflation rate in Indonesia appeared to have accelerated by a percentage point in 1995, owing to high demand pressures and the upward adjustment of some

Table 2. Selected economies of the ESCAP region: forecasts of growth rates of gross domestic product and inflation, 1996-1997

	Real GDP		Inflation a/	
	1996	1997	1996	1997
Developing economies of the ESCAP region b/	7.4	7.2	7.6	7.0
South Asia	6.2	6.3	8.6	8.0
Bangladesh	5.0	5.0	5.5	5.0
India	6.2	6.5	8.5	8.0
Nepal	6.3	...	7.0	...
Pakistan	6.5	5.8	11.0	10.0
Sri Lanka	5.7	6.5	8.1	9.0
South-East Asia	7.6	7.6	5.9	5.7
Indonesia	7.0	7.2	8.0	8.0
Malaysia	8.5	8.6	4.2	3.8
Philippines	6.4	7.1	7.5	7.0
Singapore	7.3	7.0	2.5	2.8
Thailand	8.4	8.2	5.6	5.0
Viet Nam	9.9	10.6	15.3	14.4
East Asia	8.2	7.7	4.3	4.3
China	9.5	9.1	13.0	11.6
Hong Kong	5.0	4.8	6.0	7.6
Republic of Korea	7.2	6.6	4.5	4.0
Developed economies of the ESCAP region	2.1	2.3	1.0	0.5
Australia	2.8	2.3	4.2	3.7
Japan	2.0	2.3	0.7	0.3
New Zealand	3.7	3.5	1.3	0.9

Sources: Asian Development Bank, Asian Development Outlook 1995 and 1996 (Oxford University Press, 1995); United Nations, Department for Economic and Social Information and Policy Analysis, "Project LINK World Outlook", 16 November 1995; and national sources.

Note: The forecasts for countries relate to fiscal years defined as follows: financial year 1996/97 = 1996 for India; financial year 1996/97 = 1997 for Bangladesh, Pakistan and Nepal.

a/ Refers to changes in the consumer price index.

b/ Based on data for 16 developing economies (including Papua New Guinea and Taiwan Province of China) representing more than 95 per cent of the population of the region (excluding the Central Asian republics); GDP at market prices in United States dollars in 1990 have been used as weights to calculate the regional and subregional growth rates.

administered prices, it is expected to slow down to 8 per cent next year as policies were being tightened to check price rises. Inflation in Viet Nam accelerated considerably from its low levels of 1992 and 1993 and was expected to remain in the range of 15 per cent in 1995 and 1996.

19. China's high rates of inflation impacted on the average rate of inflation not only in the East Asian economies but in the whole group of developing countries in the region. However, China succeeded in bringing down the inflation rate to the targeted 15 per cent in 1995 from 21.7 per cent in 1994, and it is expected to reduce it further in 1996 and 1997. The high inflation rate in China had an obvious impact on prices in Hong Kong, which recorded an inflation rate of 8.5 per cent in 1995. In the Republic of Korea, inflation had declined by more than a percentage point in 1995 to 5 per cent and is expected to fall by yet another percentage point in the next two years.

20. Apart from Bangladesh, inflation rates remained quite high in the least developed countries. However, Bhutan, the Lao People's Democratic Republic and Nepal have succeeded in bringing down their inflation rates to a single-digit figure. In Cambodia, Myanmar and Maldives, on the other hand, the rates exceeded 20 per cent, despite the fact that the rates in Cambodia and Myanmar had dropped substantially. With a few exceptions, the Pacific island economies succeeded in containing inflation, assisted by low inflation rates in Australia, New Zealand and the United States, their major trading partners.

21. The hyperinflationary price escalations in the economies in transition, especially in Central Asia and the Russian Federation, slowed somewhat in 1994 and the early part of 1995, but inflation remains a fundamental challenge to their reform and restructuring efforts aimed at establishing market-oriented economic regimes. Chronic budget deficits with liquidity overhang, coupled with supply shortages, continue to feed the inflation process that burst out with the initial moves towards economic reform in the early 1990s.

22. The fast-growing economies of East and South-East Asia have succeeded in sustaining high and rising rates of domestic savings and investment. Some of these economies have already become net exporters of capital. In most of the others, the gap between domestic savings and investment is relatively small and it has been financed largely by foreign direct investment, supplemented by portfolio investment, as well as commercial borrowings. That has enabled these countries to limit their external indebtedness. However, in a few cases, the recent deterioration in the balance of payments and a rise in the servicing costs of yen loans, as a result of the sharp appreciation of the yen, have caused some concern.

23. With the exception of China and Viet Nam, the budgetary situation in most countries in East and South-East Asia has remained healthy and strong. Hong Kong, Singapore and Thailand have been experiencing budget surpluses for several years, while a number of other countries have recorded surpluses during the past two years. The success of the Philippines in achieving a budget surplus, despite a heavy load of debt-servicing costs, is remarkable. Indonesia has operated within the framework of a balanced budget concept with any excess of expenditure over domestic revenue being limited to the availability of external aid and credit, thus with no scope for internal borrowing to finance budget

deficits. The effective control over budgetary deficit is a factor that could largely explain the price stability that these countries have enjoyed.

24. The savings-investment process in South Asia, in contrast to the performance in East and South-East Asia, has remained relatively weak. This is usually also the case in the region's least developed countries and the Pacific island economies. In South Asia, the economic reform packages being implemented by various countries have succeeded in accelerating export growth, attracting larger volumes of foreign direct investment, increasing levels of foreign exchange reserves and reducing inflation rates. However, savings-investment rates seem to be stagnating in most countries. This may explain the insufficient acceleration in the growth rates of their economies.

25. In Bangladesh, national saving rates accelerated to reach 13 per cent of GDP in 1994, doubling from the rate prevailing at the beginning of the 1990s, a remarkable feat in itself. That, however, has not translated into similar acceleration in the rates of investment in the economy. The relatively high rates of investment in the economies of Nepal and Sri Lanka, on the other hand, left wide gaps between the investment rates and domestic savings rates. Foreign aid, and credit flows required to fill them, may not be sustained for long. In India and Pakistan, the savings-investment rates seem to have remained relatively stable. The rates in India have tended to stabilize at a relatively high level for some time. In Pakistan, a similar stability of investment rate at a slightly lower level prevailed. Despite recent efforts to enhance revenue mobilization through major tax reform and contain growth in government expenditure, budgetary deficits remained high in both countries.

26. The savings-investment scenarios in the Pacific island economies and the economies in transition are not very clear. Savings-investment data are not available or are unreliable for most of these economies. Scattered information suggests that some of these economies have recently succeeded in attracting sizeable amounts of foreign direct investment which, however, have not yet made much of a difference in their otherwise weak economic performance. Large budgetary deficits have continued to be a feature of almost all these economies as their revenue potential remains weak, or yet unrealized, while expenditure commitments cannot be reduced.

27. Notwithstanding the differences in actual outcomes and achievements, almost all the countries in the region have shown their strong commitment to reform, the restructuring, stabilization and liberalization of their respective economies. Reforms have encompassed monetary and fiscal institutions and instruments, as well as the regimes of administrative regulations and controls affecting both the real and financial sectors of the domestic economy. Expanding the role of the private sector in the economy, including programmes of privatization of public enterprises and accelerated measures of liberalization of trade and investment regimes, has been the cornerstone of most reform programmes. The differences that continue to show up in the actual macroeconomic performance of the various economies of the region reflect the initial conditions from which the reforms were initiated, the length of time over which the measures have been implemented, the responsiveness of different economies determined by their resource endowment and technological capabilities,

and a host of other factors. The process of reform continues nevertheless in most countries.

III. INTERNATIONAL TRADE AND BALANCE OF PAYMENTS

28. International trade is a crucially important element that has propelled the economic dynamism of the developing countries in the ESCAP region. With few exceptions, countries continue to emphasize the importance of international trade in their economies and to evolve policies to participate more fully in the expected expansion in trade in the post-Uruguay Round environment. While emphasizing export promotion, most countries are taking steps to liberalize their import regimes by reducing tariffs and removing administrative controls, as well as other forms of non-tariff barriers. These reflect not only their commitment under agreements reached in the Uruguay Round of multilateral trade negotiations but also in various subregional forums such as the Association of South East Asian Nations and Asia-Pacific Economic Cooperation.

29. The latest available statistical data confirm that growth in both exports and imports for most of the developing countries in the region has remained buoyant. The export values for the region's developing countries on an average grew at 14 to 15 per cent even during the worst recession years of 1991 and 1992. Similar but slightly lower rates of growth were recorded for imports. Stimulated by the broad-based recovery in major export markets, the rate of growth in the dollar value of exports from the developing countries of the region accelerated to almost 20 per cent in 1994, while the growth rate of imports accelerated to more than 18 per cent. The 1995 data available for a limited number of countries indicate that both exports and imports continue to grow strongly, although the rate of growth overall could be somewhat slower than in 1994

30. As in other areas of economic performance, the weakness of the region's least developed countries, the island economies and most of the economies in transition is also exposed in the field of trade and balance of payments. Several of the least developed countries in the region, such as Bangladesh, Cambodia, the Lao People's Democratic Republic and Myanmar have achieved impressive rates of growth in exports. These apparently high rates of growth are, however, based on very small bases, which in terms of GDP share also constitute a very small part of each individual economy. The high rates of export growth therefore do not create a sufficiently broad dynamic impact on these economies. The narrow commodity base of the export trade, limited either to a few primary commodities or simple manufactured goods such as textiles and garments, constitutes a further structural weakness of their trade.

31. The balance of payments of these economies also remains structurally unbalanced in most cases. Imports generally exceed exports by a margin of at least two to one. The resulting trade deficits are, with a few exceptions, further aggravated by the deficits incurred in the trade in invisibles. Recent developments have also indicated a deterioration in the balance of trade and payments of a number of the well-performing economies of the region. These include India, Indonesia, Malaysia, Pakistan, the Philippines, the Republic of Korea, Sri Lanka and Thailand. Very high rates of growth in imports worsened

the deficits in the trade balances of several of these countries in 1995. There were also larger deficits in invisibles, particularly on account of the costs of servicing external debts and payments related to foreign direct investment in these countries. China and Singapore enjoyed a comfortable balance-of-payments situation, with surpluses recorded in both their merchandise and their invisible trade accounts. Continuing strong inflows of capital, however, have enabled the deficit countries not only to finance the payment deficits but also to build up their reserve assets.

32. The balance-of-payments situation has raised concerns in several countries. The continuing liberalization and openness of trade regimes, as well as easier access to credit and capital, including offshore facilities, may be encouraging a rapid growth of imports. Exports, on the other hand, are facing more intense competition based on differences in costs and efficiency. Several countries in the region have been experiencing labour and skill shortages, and consequently higher labour costs of production, thereby losing comparative advantage in producing simple manufactured goods based on cheap labour. These countries will have to shift their industrial and production structures towards more technology-intensive areas and improve labour productivity in existing industries. The existence of cheap labour in low-wage countries is also no guarantee that they will be able to compete effectively in the international markets. Unit production costs in the low-wage countries may still remain high if low productivity offsets low wages.

33. The management of the balance of payments in the new, open and deregulated trade and financial environments poses new challenges. The market may be relied on to know better, but the market can also be misinformed or it can misread the indicators of economic fundamentals in a given situation or react to well-intended policy moves in perverse ways. Thus, a run on a country's balance of payments can be induced by purely speculative moves. A short-term balance-of-payments crisis may, however, also ensue as a matter of course. Industrial countries, which decontrolled and freed their balance-of-payment transactions in earlier decades, have devised various individual and collective mechanisms to protect individual economies from such adverse developments. The countries in the ESCAP region have also shown awareness of the potential risks involved in the new openness of their trade and financial regimes. That awareness was reflected in a series of understandings recently reached among central bankers in the region to provide mutual assistance and credit line offers to each other in times of any such critical developments. That, however, would not diminish the need for vigilance on the part of the guardians and managers of policies in individual countries.

IV. ENHANCING THE ROLE OF THE PRIVATE SECTOR IN DEVELOPMENT

34. In all countries of the ESCAP region, the private sector is viewed as a key instrument for achieving economic goals in a world of rapidly increasing global competition as it is considered to be more efficient, flexible and productive than the public sector in undertaking a large variety of investment, production, distribution and service-related activities. There is a consistently visible emphasis across countries on policy reforms which are either directly or indirectly designed to encourage the development of the private sector and to

enhance its role in economic activities. The role of Government is thus being transformed from being mainly a provider to being an enabler in the production and distribution of goods and services. However, the success of the policies followed depends on the underlying preconditions for private sector development, including stable and credible political conditions, law and order, and the continuity of policies which in themselves must be credible, consistent and transparent, as well as stable macroeconomic conditions. Policies take time to implement, with their results often not being visible in the short run, and the private sector needs to be confident that policies will not suddenly be reversed. Success is predicated on the ability of the State actually to implement the policies adopted: the lack of effective implementation, which is visible in many countries in the region, is often related to a lack of political will, a lack of reform of the public administration to increase its efficiency and the influence of vested interest groups in both the public and the private sector. Thus, building a firm foundation for private sector development depends crucially on the role of Government in creating an enabling institutional environment and in implementing an efficient set of promotional policies.

35. One fundamental role of Government is to develop and manage a sound and credible legal framework for private sector activities. High transaction costs for the private sector in many developing countries are often associated with risks and uncertainty emanating from undefined property rights systems and problems of contract enforcement. Private ownership of property is a core institution in an economy with a vibrant private sector since it provides the incentive for property owners to engage in various transactions in order to maximize the economic value of their property. There is still considerable scope for improvements in the systems of property rights and the functioning of land markets in the region. This requires greater attention.

36. Contract enforcement is closely associated with the implementation of property rights. Without some form of assurance that the purchasing or selling of contracts into which they enter will normally be honoured, and if they are not, that there is a legal recourse, private sector entities have no firm basis on which to initiate activities. Countries with strong, credible regimes for enforcing contracts for investment and trade or in the financial sector, such as in the East Asian countries, are more able to achieve the rapid and sustainable growth of their private sector. While devising a complete and consistent commercial legal system is important, no less so is the mechanism of governance and implementation. There is ample evidence that a weak bureaucracy, coupled with an ineffective judicial system, tends to generate an inefficient implementation of the formal institutional structure.

37. The deregulation and liberalization policies being implemented by countries in the region are aimed at getting prices and incentives right and, in so doing, they underwrite the enhancement of the role of the private sector in an economy. All countries in the region, including those that previously practised pervasive administered prices, have abolished many of the controls on prices of both inputs into and outputs from the production process. However, administered or indicative maximum or minimum prices still exist in many countries of the region for selected agricultural exports or basic foodstuffs with the rationale of protecting the interests of the small farmers and the poor. At any rate, these administered prices should be highly selective and generally time-bound.

38. Fiscal reforms also form a major component of deregulation in practically all countries in the region. While these are often intended primarily to affect government budget positions, their content has significant implications for the private sector. Many changes in tax rates and in the structure of the tax systems have been designed to improve the incentive structure facing the private sector, either by reducing direct tax on business income or by rationalizing and simplifying the tax structure for corporations. In countries where tax reforms were undertaken some years ago, there is now a concern to keep the structure relatively stable so as not to create uncertainty for the private sector.

39. Financial sector deregulation and liberalization can also assist in providing the necessary stimulus to private sector development. Interest rate deregulation, which is ongoing in most countries, can contribute by allowing interest rates to rise and so increase the supply of loanable funds. Reducing or eliminating programmes of directed or subsidized credit helps to reduce fragmentation in the financial market and to make the competition for funds within a country more transparent and equal. Similarly, the ongoing reforms to reduce entry barriers of financial institutions and to widen the financial services available should help to increase competition in the provision of credit to the private sector and to widen the choice of ways to raise funds.

40. A major distortion facing the private sector in many developing countries emanates from a commercial policy that is protective of local industry. A major task of recent reforms, therefore, has to do with dismantling the various barriers in the areas of trade and investment. Liberalization in trade regimes has been escalating in the region, encompassing almost all economies and sectors within each economy. The results of creating competitive conditions and accelerating the growth of the private sector have been mixed, however, and depend crucially on the initial conditions of the country. Countries with strong and stable macroeconomic fundamentals, such as those in the East and South-East Asian regions, have exhibited substantial gains in growth and exports, including those from the private sector over the past 10 years, as a result of massive deregulation and liberalization policies. Further trade liberalization is likely to involve further curtailing and rationalizing of tariff rates and reductions in non-tariff barriers, as well as addressing the problem of barriers in the politically sensitive area of agriculture.

41. Governments have come to realize the strategic importance of foreign investment in supporting the development of the private sector, as partners and as competitors, and as role models for domestic private firms in terms of structure, procedures and management practices. All countries in the region have undertaken significant measures aimed at liberalizing investment regimes and yet direct foreign investment inflows remain concentrated in a few countries. The reasons for this include the credibility of the regulations and the enforcement regimes within which the private sector operates.

42. While deregulation and liberalization reduce entry and credit barriers for private firms, they need to be complemented by an effective competition policy. The crux of such a policy is to protect the economy and the public from various forms of abuse of market power. In a formal sense, most countries in the region either have legislated a competition law or have provisions on fair trading in their commercial legal structure. However, the actual practice of enforcing

competition policies is very weak and uneven, and much remains to be done in this area.

43. Creating an enabling environment for private sector development is necessary but not sufficient; it needs to be supplemented by promotional policies to develop entrepreneurship, to build up technology capabilities and to improve access to finance. Management education and training are essential to enhance entrepreneurship development. While the list of government-sponsored management training schemes in the region is endless, there is a need to improve the schemes, in close cooperation with the private sector, in order to take the needs of the private sector more into account. Fostering inter-firm linkages and other modes of learning-by-doing for managers are also useful ways of enhancing entrepreneurship. The role of Government in building up technological capabilities is often crucial through, for example, exposing firms to international competition, emphasizing science and technology in education, and fostering research and development activities.

44. There appears to be room for improving the access to finance for investment by small and medium-sized enterprises without contradicting efforts to liberalize the financial sector. Experience shows that lending rates should be charged at the prevailing market rates, but efforts are needed to reduce transaction costs by simplifying paperwork and improving conditions for collateral. The latter problem can be addressed through activities of business associations, subcontracting arrangements and training on keeping accounts and risk assessment.

45. At present, there is a plethora of government policies and action programmes to support private sector development in the region, each directed to certain goals and certain target groups and many directed specifically to the development of small and medium-sized enterprises. The effective management of the programmes as a whole to ensure synergy among various programmes and institutions is important. To accomplish this, Governments need to foster closer cooperation with the local private sector through various forms of consultative mechanisms. Experience with government-business consultancy forums in Malaysia, the Republic of Korea, Singapore and Thailand is instructive as it provides many useful lessons for making policies and programmes more responsive to changes in the business environment. Business associations can also play an important role as a conduit of legitimate business interests.

46. The provision of adequate economic infrastructure services provides an enabling condition so that it is possible for the private sector to undertake business activities. In targeted schemes such as those in special economic zones, it actively encourages private sector activities by providing them with a relatively dense network of infrastructure services that would have been too expensive to build over a larger area. The need for a policy framework to increase the provision and improve the performance of infrastructure services has been recognized in most countries in the region. Indeed, the demand for economic infrastructure is increasing much more rapidly than its supply for reasons of rapid economic growth, urbanization and poor infrastructure maintenance. Even though government finance will still be the most important source of infrastructure financing, the private sector can and is being

encouraged to take over certain functions such as the building of, or management of, many forms of infrastructure.

47. Taking measures to enhance the role of the private sector in economic activities also creates a new series of problems and issues which need to be addressed. One challenge is to cope with the potential short-run destabilizing effects of deregulation and liberalization on macroeconomic fundamentals. Deregulation and liberalization actions have significantly increased the interdependence among the macroeconomic variables and eroded the capacity of national authorities to exercise effective control over all these variables simultaneously, as well as significantly changing the tools at their disposal. Thus, while the need to ensure a stable and predictable macroeconomic environment has become greater as countries rely to a larger extent on the private sector for development, the task of macroeconomic management has at the same time become more complex, requiring much more information, knowledge and skill.

48. The need for continuing institutional reform will persist in all countries. With the increasing relevance of competition policy in managing a competitive economy based on the private sector, a pressing need emerges for each country in the region to legislate viable laws governing the potential abuses of market power. Developing a tradition of transparency in transactions of private firms, especially larger ones, is another emerging concern. In addition, Governments cannot be oblivious to the importance of equity. Even if strategy based on the private sector is efficient, there is nothing inherent in the system to assure equitable distribution of the fruits of production and to lead to alleviation of poverty. Here again, some form of government intervention may be unavoidable. Governments have to decide on a proper mix of efficiency and equity according to the needs and circumstances of individual countries.

V. THE ROLE OF PUBLIC EXPENDITURE IN THE PROVISION OF SOCIAL SERVICES

49. The developing countries in the ESCAP region are increasingly recognizing the crucial role that human and social development plays in overall national development, as well as in enhancing people's welfare. Despite the substantial progress made over the past decades, there are still significant lags in many areas of social development and the services available to broad segments of the population. Demand for more and better social services is also increasing. These demands need to be met efficiently and equitably.

50. Traditionally, the public sector has been given a prominent role in the production and delivery of social services on the grounds of both efficiency and equity. The efficiency argument runs on considerations of the externalities involved in the production and consumption of social services, which could best be captured through public sector rather than through profit-oriented private sector actions. The public provision of social services can easily incorporate positive discrimination in favour of the poorer segments of society and therefore help to improve income distribution and reduce poverty. The public sector continues to play a major role in the provision of social services

throughout the region, despite recent calls for the greater involvement of the private sector in these activities.

51. The importance attached to social development and social services by countries in the region is reflected in the public resources devoted to the production and delivery of social services in areas such as education, health, housing, water supply and sanitation, and social protection. Over the past two decades, expenditure on social services has constituted between a fifth and a third of total government budgetary expenditure in most of the countries of the region, irrespective of their level of development. Since the beginning of the 1990s, there has been a steady rise in the proportion of public expenditure on social development in most of the countries. With the exception of a very few countries, the proportions of public expenditure allocated to social sectors now exceed 20 per cent. Expressed as a share of GDP, expenditure on social services generally ranges from 5 to 10 per cent. There are, however, countries which still spend less than 5 per cent of GDP on social sector developments and social services and some of them are the region's least developed countries.

52. The relatively high levels of social expenditure, as reflected in the share of total spending as well as of GDP, conceal the inadequacies and inequities of intra-social sector allocations of resources. In many countries, the major shares of educational expenditure, for example, are devoted to higher levels of education rather than primary education, even when primary enrolment ratios are low and illiteracy rates are high. Similarly, in the area of health care, more emphasis is placed on expensive hospital-based curative health care, and relatively less on preventive and promotive services which could easily remove some of the leading causes of morbidity and mortality.

53. Nevertheless, in practically all countries of the region, there have been considerable accomplishments in the field of education, health, water supply and sanitation over the past few decades. Numbers of schools, teachers, hospitals, doctors and other relevant institutions and personnel have increased, for example. Public health and sanitation programmes have been expanded in most countries to cover the major proportion of the population. The increased accessibility to the various services is reflected in the relevant indicators, such as a rise in enrolment ratios and literacy rates and an extension of life expectancy through reductions in morbidity and mortality.

54. There are still quantitative and qualitative deficiencies in many areas of the social services. In the field of education, for example, enrolment rates are still relatively low and drop-out rates are high in several countries. This particularly affects female and underprivileged children in rural areas and depressed urban locations. The quality of education often remains poor because of a lack of teachers and a poor supply of books and other educational equipment, even where schools exist. Similarly, in the area of health, infectious and communicable diseases remain a major health hazard, infant and maternal mortality rates remain high and public health coverage remains inadequate. A new public health hazard in the form of AIDS has emerged as a major threat.

55. Although there are very few benefit-incidence studies to locate precisely the costs and benefits of the expenditure on social services, it is almost

certain that the relatively well-off sections of society benefit more from the expenditure and the services provided. Access to the facilities and services is generally easier for the well-off than for the poor segments of both urban and rural residents.

56. It is obvious that both quantitative and qualitative improvements are necessary in many areas of social services in the region. These improvements can come about through the provision of more resources, as well as through a more effective use of the resources that are spent on them. Scope seems to exist for augmenting public resources that can be devoted to expand and improve the social service infrastructure, as well as to provide more and better services. Tax revenue can be enhanced through a greater rationalization of tax structures and a more vigorous enforcement of taxes to eliminate or minimize tax avoidance and evasion. User charges can be levied using the criteria of progression, making those who can afford to pay for services do so, while providing them free or at subsidized rates to those who cannot afford the costs. There are perhaps economies to be effected in several areas of public expenditure, such as on defence and general administrative services. The savings arising out of such economies could be reallocated to the social sectors.

57. The private sector, non-governmental organizations and local communities could be more actively involved in developing and maintaining social services facilities and in the actual delivery of many of the services. One way of encouraging private sector participation could be through a matching arrangement under which the public sector would complement, on a one-to-one basis, any private sector contributions to facilities that were developed and managed properly. Such arrangements would instil a sense of partnership between the public and the private sectors, allowing the former a stake in the necessary supervision of private activities.

58. Community involvement would encourage contributions from the community not only to build but also to maintain facilities and to regard them as their own. The administration of means-tested discriminatory pricing of services, as suggested above, would be easier and more efficient with community involvement. All these would require considerable decentralization and devolution of activities, resources and decision-making powers at local levels.

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Summary of the economic survey of Latin America and the Caribbean, 1995

SUMMARY

The economic panorama of Latin America and the Caribbean during 1995 was dominated by three features. The first and most significant of all was the Mexican financial crisis that arose at the end of 1994 and produced major after-effects in Argentina. The second was the consolidation of the stabilization programme in Brazil. Both events marked turning points in the evolution of the region's three largest economies. The third noteworthy feature, on the other hand, was the similarity of the other countries' economic performance to that of 1994.

In previous years, the performance of most of the region's economies has relied on external capital inflows, and this continued to be the case in 1995. Although such capital was initially withdrawn from Mexico and Argentina, it remained at the previous year's levels in most of the other countries, and in Brazil it rose considerably.

The countries of the region adopted varying approaches to economic policy depending on the degree to which the financial crisis that had begun in Mexico at the end of 1994 affected their economies. In particular, the net inflow of external financial resources and the greater or lesser uncertainty prevailing in domestic markets were decisive factors in the policies applied in response to the crisis.

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In general, two major types of approaches were seen. On the one hand, Argentina, Mexico and, to some extent, Uruguay had to manage their economic policies in a climate marked by a sharp contraction of external financing. Other countries, on the other hand, once they had recovered from the initial impact, managed to overcome the financial turmoil and to pursue a satisfactory pace of growth.

Despite the diversity of climates in which the region's economies developed, the achievement of domestic price stability remained a priority, reaching the point where a significant increase in the inflation rate occurred only in Mexico. Fiscal equilibrium also remained a concern. In 1995, one group of countries in Latin America and the Caribbean kept the fiscal results within acceptable limits. On the other hand, another group of countries saw public finances deteriorate markedly.

The insistence on achieving stability continued to mean that monetary policies swung between prudence and constraint. Exchange rate policy was changed in Mexico, which allowed the peso to float at the end of 1994, after a period in which it had been subject to a fluctuation band; Brazil and Ecuador, which went over to flotation band systems; and Honduras, which implemented an auction mechanism with intervention by the central bank. The other countries continued with the exchange rate systems that had been in force in the previous year. In general, the rise in the international prices of commodities had a notably positive effect on trade deficits.

A variety of trends were seen in capital-account liberalization processes. Some countries in which the flow of short-term foreign capital was tending to erode real exchange rates sought to restrain the appreciation of local currencies by adopting tax measures or banking reserve requirements. Other countries depended less on short-term capital to finance their current-account deficits.

The solvency of the financial system was jeopardized in several countries (Argentina, Brazil, Ecuador, Mexico, Nicaragua, Paraguay and Venezuela, in the latter case by delayed effects of the previous year's crisis). In some cases, the problems were of domestic origin. In other cases, the abrupt suspension of private external financing in the wake of the Mexican crisis meant massive withdrawals of short-term bank deposits, which led to an acute liquidity shortage.

The gross domestic product (GDP) of Latin America and the Caribbean grew by 0.6 per cent in 1995, marking a pause in the recovery which began in 1991. Thus, per capita GDP fell by 1.1 per cent, by contrast with the increases of the four preceding years. As a result, regional output for 1995 was only 30 per cent higher than that of 1980, before the debt crisis, and per capita GDP was a further 1 per cent lower than in 1980. This negative trend was attributable almost entirely to the sharp contraction of activity in Mexico and, to a lesser extent, Argentina. Without those two countries, trends in regional output were very different, with a gain of slightly over 4 per cent.

The regional inflation rate plummeted in 1995 to 25 per cent, from 890 per cent in 1993 and 340 per cent in 1994. This was, moreover, a generalized trend: in 17 of the 22 countries observed, the consumer price index fell or remained stable. Only in four countries was the trend unfavourable and only in Mexico was there a significant increase in inflation.

As in the previous year, the terms of trade improved in most of the region, thanks above all to higher commodity prices. The value of merchandise exports rose by 23 per cent, which constituted another milestone in this decade's rapid increase. In value, the region's imports expanded by 12 per cent, less than the previous year, and topped US$ 220 billion, a historical high. Excluding Argentina and Mexico, where the crisis caused a substantial drop in imports, however, the growth figure is much higher (33 per cent), although it is also true that much of the region's increase was concentrated in a single country, Brazil. The current account deficit declined significantly in 1995 to US$ 34.5 billion from a 1994 figure of around US$ 50 billion.

Net capital inflows to the region in 1995 amounted to US$ 22.4 billion, lower than in 1994 and much lower than in 1992-1993, when the amount was US$ 65 billion. This figure includes US$ 18 billion in direct investment, US$ 14 billion in other long-term capital and US$ 10 billion in short-term capital and portfolio investment outflows.

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INTRODUCTION

1. The economic panorama of Latin America and the Caribbean during 1995 was dominated by three features. The first and most significant of all was the Mexican financial crisis that arose at the end of 1994 and produced major after-effects in Argentina. The second was the consolidation of the stabilization programme in Brazil. Both events marked turning-points in the evolution of the region's three largest economies. The third noteworthy feature, on the other hand, was the similarity of the other countries' economic performance to that of 1994.

2. Accordingly, most of the countries of the region maintained, and seemed to be consolidating, a pattern of economic performance characterized by moderate growth rates accompanied by moderate and diminishing inflation, large current account deficits covered by external capital, and low domestic savings rates. Despite its vulnerability and its insufficient rate of job creation, this pattern is a significant improvement compared with the stagnation and instability that characterized the regional panorama in the 1980s. Brazil, for example, which in previous years did not conform to this pattern owing to its high rate of inflation and continual current account surplus, was coming close to conforming in 1995.

3. In previous years, the performance of most of the region's economies has relied on external capital inflows, and this continued to be the case in 1995. Although such capital was initially withdrawn from Mexico and Argentina, it remained at the previous year's levels in most of the other countries, and in Brazil it rose considerably. In the cases of Argentina and especially Mexico, the effect of the net outflow of private capital was reduced by a heavy inflow of compensatory financing from the International Monetary Fund and the United States Government and by financing from official multilateral sources. Dependence on external capital was also reduced because the value of exports grew by more than 20 per cent in 1995, owing in large measure to an upward trend in prices for the second consecutive year.

4. The Mexican financial crisis did not actually have such extensive or lasting repercussions in the rest of the region as had at first been feared. Nevertheless, the adjustments that the crisis forced upon some economies amounted to a warning of the dangers of a growing trade deficit and an excessive dependence on short-term foreign capital, and of the need for greater consistency in economic policy.

5. Because the economic performance of the Latin American and Caribbean countries exhibited a far greater diversity in 1995 than in earlier years, it is difficult to make an interpretation based on the regional averages as shown by the economic indicators. Growth in GDP reached barely 0.6 per cent compared with 4.6 per cent in 1994 (a fall of 1.1 per cent in per capita terms following an increase of 2.7 per cent in 1994), but this poor performance was due to a great extent to the setbacks experienced by Mexico and Argentina. On a more positive note, the tendency towards lower inflation seen in prior years became more pronounced; the drop in the inflation rate from three digits to 25 per cent was essentially the result of Brazil's stabilization programme, which more than

offset the effect of Mexico's price rises following the devaluation of the peso (see table 1).

6. Not only was the performance of the economies mixed; individual groups of countries also had quite different reasons for their unequal performances. In the cases of Mexico and Argentina, internal demand, in terms of both consumption and investment, dropped sharply; only the dynamic performance of the external sectors of both countries prevented even more drastic reductions in GDP. The volume of exports rose considerably (increasing by 17 per cent in Argentina and 25 per cent in Mexico), whereas the volume of imports declined (by 17 per cent and 15 per cent, respectively). On the other hand, in the other countries the opposite situation applied. Internal demand surged, rising by an amount that outstripped the increase in GDP, so that a large portion of this increased demand had to be met with imported products. The volume of imports rose by nearly 37 per cent in Brazil and by an average of 14 per cent in the other countries, while the volume of exports declined in Brazil and grew at a moderate pace (under 6 per cent) in the rest of the countries (see table 2).

7. The disparities in the performances of the individual economies, especially the larger ones, also reduce the relevance of the indicators for the region as a whole in other respects. For example, in 1995 the region reported a surplus in its merchandise trade balance for the first time in this decade. This is an average resulting from large surpluses in Argentina and Mexico plus those of Chile, Ecuador and Venezuela, which all taken together more than offset the deficits reported by the other countries. By extension, the performance of the current account and the capital account balance reflect similar country-to-country differences.

8. Comparing the performance of Argentina and Mexico with that of the other economies does not, however, mean that the latter were free of problems. Most of them continued progressing towards macroeconomic stability with growth, but with notable weak spots, and in many cases their growth was not sufficient to reduce the social deficits accumulated in earlier years. Other sources of concern in 1995 were some countries' limited growth in exports, the continuation of savings rates that are clearly inadequate, some setbacks in terms of fiscal balance and the weakness that is beginning to appear in the banking system.

I. MACROECONOMIC POLICY

9. The region's countries adopted varying approaches to economic policy depending on the degree to which the financial crisis that had begun in Mexico at the end of 1994 affected their economies. In particular, the net inflow of external financial resources and the greater or lesser uncertainty prevailing in domestic markets as a result of foreign or domestic events were decisive factors in the policies applied in response to the crisis.

10. In general, two major types of approaches were seen. On the one hand, Argentina, Mexico and, to some extent, Uruguay had to manage their economic policies in a climate marked by a sharp contraction of external financing, in which they faced severe slumps in domestic demand, with adverse effects on output and fiscal revenues. Other countries, on the other hand, once they had

recovered from the initial impact, managed to overcome the financial turmoil and to pursue a satisfactory pace of growth, although with varying degrees of control over their chief macroeconomic equilibria. By the end of the year the uncertainty had abated in much of the region. This, together with the decline in international interest rates, suggested a positive change in the expectations of domestic and foreign economic agents.

11. Despite the diversity of climates in which the region's economies had developed, the achievement of domestic price stability remained a priority, reaching the point where a significant increase in the inflation rate occurred only in Mexico. Fiscal equilibrium also remained a concern. In 1995, one group of countries in Latin America and the Caribbean kept the fiscal result within acceptable limits, with no pressure on domestic credit. On the other hand, another group of countries saw public finances deteriorate markedly. This problem was observed already in 1994 in Costa Rica, Honduras and Venezuela and, to a lesser extent, in Uruguay. In some of these countries the imbalance was financed chiefly through monetary expansion. In 1995 this situation continued without great change, but it included the marked imbalance in the Brazilian accounts, where a deficit of 4.5 per cent of GDP was recorded, in contrast with the 1 per cent surplus of 1994. Colombia recorded a deficit of 3 per cent in public finances after a relatively balanced situation - even, at times, showing a surplus - in the last five years.

12. Monetary policy in a number of countries has thus been assisted by fiscal management, as well as by the increase in the demand for money against a background of expectations of reduced inflation. In another group of countries, growing fiscal problems have complicated the application of monetary policy. Some economies also experienced continuing large flows of external resources, which has made it difficult to reconcile monetary expansion with growth and inflation targets. Domestic interest rates have thus had to contend with the conflict between the development of competitiveness, monetary targets and the financing of the external current account deficit.

13. The insistence on achieving stability continued to mean that monetary policies swung between prudence and constraint. Real interest rates were generally favourable; in cases where real rates rose significantly, the monetary authorities again faced the dilemma of either allowing capital inflows to exert downward pressure on real exchange rates or seeking to sterilize the monetary impact of the flow of funds at the risk of creating a vicious circle that would stimulate new capital inflows.

14. Exchange rate policy was changed in Mexico, which allowed the peso to float at the end of 1994, after a period in which it had been subject to a fluctuation band; Brazil and Ecuador, which went over to flotation band systems; and Honduras, which implemented an auction mechanism with intervention by the central bank. The other countries continued with the exchange rate systems that had been in force the previous year. Real exchange rates showed varying trends. In some cases, local currencies continued to appreciate, which supported anti-inflationary efforts but undermined the competitiveness of domestic products vis-à-vis imports. On the other hand, the three countries affected by the interruption of foreign financing saw their currencies depreciate against those of their main trading partners. Mexico was significantly affected by

this, while the other countries were affected to lesser degrees as were Bolivia, Paraguay and Peru. In mid-December Venezuela substantially devalued its currency, which had appreciated during the year; the effects of this move on the country's key economic and financial variables will be felt mainly during 1996.

15. In general, the rise in the international prices of commodities, including both primary products and manufactured goods, had a notably positive effect on trade deficits. In the countries most affected by financial turbulence, falling domestic demand and improved external competitiveness helped to expand the physical volume of exports and, at the same time, to slow down the rate and even reduce the volume of imports. On the other hand, current-account deficits widened in Brazil, Colombia and Peru, countries in which domestic demand increased.

16. A variety of trends were seen in capital-account liberalization processes. Some countries in which the flow of short-term foreign capital was tending to erode real exchange rates sought to restrain the appreciation of local currencies by adopting tax measures or banking reserve requirements. Other countries depended less on short-term capital to finance their current-account deficits. In particular, countries which experienced a setback in private external financing resorted to medium- and long-term government debt. In this connection, the financial support provided by the United States Government and by multilateral agencies played an important role.

17. The solvency of the financial system was jeopardized in several countries (Argentina, Brazil, Ecuador, Mexico, Nicaragua, Paraguay and Venezuela, in the latter case by delayed effects of the previous year's crisis). In some cases, the problems were of domestic origin, sparked by the liquidity crisis of large financial institutions; the monetary authorities provided safety nets and financially supported the restructuring of the system. In other cases, the abrupt suspension of private external financing in the wake of the Mexican crisis meant massive withdrawals of short-term bank deposits, which led to an acute liquidity shortage, a significant rise in real interest rates and a growing trend towards default on bank loans. This situation generally led to a reorganization of the financial system through mergers, intrabank acquisitions, branch closings and measures to deal with the increase in default. A third category of banking problems arose from the constraints on the provision of financing by central banks to regional banks. In a context of non-performing portfolios, these banks, which financed local government deficits, could not rediscount the loans granted to public and private institutions; this generated banking problems at the regional level. Lastly, in some countries there were isolated bank failures resulting from poor management decisions.

II. ECONOMIC ACTIVITY

18. The gross domestic product (GDP) of Latin America and the Caribbean grew by 0.6 per cent in 1995, marking a pause in the recovery which began in 1991. Thus, per capita GDP fell by 1.1 per cent, by contrast with the increases of the four preceding years. As a result, regional output for 1995 was only 30 per cent higher than that of 1980, before the debt crisis, and per capita GDP was a further 1 per cent lower than in 1980. This negative trend is

attributable almost entirely to the sharp contraction of activity in Mexico and, to a lesser extent, Argentina (see table 3). Without those two countries, trends in regional output were very different, with a gain of slightly over 4 per cent, nearly equal to that of 1994, the highest in 15 years.

19. This negative trend was provoked by the financial crisis which began in Mexico in December 1994 with a sharp devaluation of the local currency and a reversal of capital inflows, which soon occurred also in Argentina. As a result, both countries underwent a change in total demand, with falling consumption and investment, partially offset by increases in exports.

20. By contrast with the poor performance of Argentina and Mexico, in almost all the other countries of the region trends were favourable, with more even growth rates than those recorded recently. Expansion in both domestic and external demand, and the continued high inflow of financial resources from outside the region were the main contributory factors in this growth in 1995.

21. Four countries (Chile, Colombia, El Salvador and Peru) posted gains of more than 5 per cent, continuations of the favourable results of previous years. Chile grew by 8 per cent, considerably more than in 1994 and completing 12 years of uninterrupted growth. Peru recorded a significant increase of around 7.5 per cent, though this was lower than in 1994, when growth was almost 13 per cent. El Salvador once again showed great buoyancy (6.5 per cent), based on a recovery in agriculture and robust expansion in manufacturing and construction. Colombia, which has posted positive growth rates for many years, recorded a level of somewhat more than 5 per cent in 1995.

22. Meanwhile, output grew moderately in 10 countries - Barbados, Bolivia, Brazil, Costa Rica, Dominican Republic, Ecuador, Guatemala, Panama, Paraguay and Trinidad and Tobago. GDP in Brazil expanded by 4 per cent, less than the previous year. Nevertheless, performance varied widely in the course of 1995, and there were significant changes in short-term trends in Brazil's level of activity. In the first quarter, the impetus of the last months of 1994 continued, with a remarkable rise of 10 per cent with respect to the same period the previous year, but from the second quarter onwards the economy slowed noticeably. The Bolivian economy grew by 3.5 per cent owing to the mediocre performance of the agricultural sector, which was affected by adverse weather conditions. In Ecuador growth in GDP fell owing to the contraction in capital expenditure and public consumption in the wake of the conflict. However, exports were buoyant. In Paraguay GDP rose by 4 per cent, thanks to the recovery in agriculture, which was fuelled by the two main products, soya beans and cotton. In Costa Rica, constraints on external resources in the first months of 1995, along with the surge in interest rates and the adjustment programme, resulted in a slowing of economic activity, and GDP grew by only 2.5 per cent. Growth in Guatemala was 4.5 per cent, exceeding the population growth rate for the ninth year in succession. Merchandise exports gave impetus to total demand. Panama recorded slightly higher growth (3 per cent) than in 1994, marking the end of three years of decline. In the Dominican Republic GDP recorded a rise of around 5 per cent. This was mainly a product of tourism, family remittances and the free trade zones. Barbados and Trinidad and Tobago grew by 2 per cent and 3 per cent respectively - less than in 1994 - while Jamaica experienced meagre growth.

23. Four other countries (Haiti, Honduras, Nicaragua and Venezuela) recovered after the poor results of previous years. Output in Venezuela grew, despite the relative stagnation of the non-petroleum sector, which was more than offset by the performance of the petroleum sector. In Honduras, the main obstacles to growth during the previous year lost strength, and the economy expanded by 3.5 per cent. Nicaragua's growth was satisfactory for the second year in succession. Haiti, too, just recovered from the considerable losses of earlier years, as a result of the lifting of the international embargo.

24. In 1995 only three countries recorded a drop in the level of activity. Apart from Argentina and Mexico, Uruguay's output also fell, though to a lesser extent. The level of activity in the Argentine economy fell in 1995 for the first time since the beginning of the decade, breaking the phase of dynamic expansion which had lasted for a number of years. The decline in domestic demand and in aggregate output in 1995 were associated with the collapse in capital inflows. The emergency economic programme implemented in Mexico as a result of the financial crisis led to a severe contraction in domestic demand, alleviated by the buoyancy of exports, which prevented GDP from falling even more than 7 per cent in 1995. In Uruguay, the abrupt downturn in domestic demand as a result of the fiscal adjustment and of the steep decline in demand from Argentina led to a drop in Uruguay's GDP of around 1.5 per cent during 1995.

25. Economic activity in Cuba increased, but at the same time there was no end to the deep crisis which has persisted for some years. The growth of GDP in 1995 is attributable to increases in manufacturing, tourist and electricity services, mining, non-sugar agriculture and construction.

26. Despite the still relatively high population growth rates of many of the countries, the results in terms of per capita GDP were mainly positive. This indicator of well-being grew by 3 per cent or more in four countries - Chile, Colombia, El Salvador and Peru - and in a further nine - Barbados, Bolivia, Brazil, Dominican Republic, Guatemala, Haiti, Panama, Paraguay and Trinidad and Tobago it increased by between 1 per cent and slightly under 3 per cent. In four other economies - Costa Rica, Ecuador, Honduras and Nicaragua - it expanded slightly, and in Venezuela it was practically unchanged. In the four remaining countries (Argentina, Jamaica, Mexico and Uruguay) per capita GDP fell.

27. After the unfavourable performance of the region's economies during the previous decade, in 1995 only eight countries recorded per capita GDP in excess of the 1980 figure: Chile (45 per cent), Colombia (34 per cent), Jamaica (24 per cent), Uruguay (13 per cent), Panama (12 per cent), Dominican Republic (11 per cent), Costa Rica (4 per cent) and Barbados (1 per cent). Brazil, Ecuador and Paraguay recorded levels similar to those of 1980, and in Argentina the figure dropped slightly (2.5 per cent). At the other extreme, the greatest falls in per capita GDP occurred in Haiti (-47 per cent), Nicaragua (-41 per cent), Peru (-15 per cent), Guatemala (-13 per cent), Bolivia (-12 per cent), Mexico (-10 per cent), Honduras (-7 per cent) and El Salvador (-6 per cent) (see table 4).

III. INFLATION

28. The regional inflation rate plummeted in 1995 to 25 per cent, from 890 per cent in 1993 and 340 per cent in 1994. This was, moreover, a generalized trend: in 17 of the 22 countries observed the consumer price index fell or remained stable. Only in four countries was the trend unfavourable and only in Mexico was there a significant increase in inflation, though this did not attain the same levels as in the 1980s and the early 1990s (see table 5). By contrast, inflation was almost zero (less than 2 per cent annually) in three countries (Argentina, Barbados and Panama), and another three experienced single-digit rises (Chile, Guatemala and Trinidad and Tobago). A large group of countries (Bolivia, Dominican Republic, El Salvador, Jamaica, Nicaragua, Paraguay and Peru) posted increases of between 11 per cent and 16 per cent. Six others (Brazil, Colombia, Costa Rica, Ecuador, Haiti and Honduras) had price rises of between 20 per cent and 30 per cent. Lastly, only three countries (Mexico, Uruguay and Venezuela) recorded annual rises in inflation of 40 per cent to 50 per cent.

29. With the marked drop in Brazilian inflation, all the near hyperinflationary situations of the last 15 years in the region have disappeared. Bolivia has had moderate price increases since 1986, and Argentina has made great progress in controlling inflation since 1992, so that in November 1995 the annual rate was less than 2 per cent - a record for that country. In Peru, inflation continued to fall, dropping from 15 per cent in 1994 to 10 per cent in 1995 and consolidating a rate of low price increases after the very high rates recorded between 1988 and 1990. Nicaragua's annual inflation has fallen considerably since 1992, to 11 per cent in 1995. This is in sharp contrast to the rates noted up to 1991, with a peak of nearly 34,000 per cent in 1988.

30. Other countries which in the past have experienced high inflation - though not nearly as high as in the countries just referred to - also saw a drop in prices in the course of 1995. Examples are Ecuador and Uruguay: in Ecuador the downward trend continued in moderate fashion - from 25 per cent in 1994 to 22 per cent in 1995; and in Uruguay inflation was below 40 per cent for the first time since 1983.

IV. EMPLOYMENT AND WAGES

31. At the regional level, the drop in economic growth had a considerable impact on labour markets, which aggravated employment problems. Because of the steep rise in unemployment in some countries, the regional open unemployment rate, weighted to take account of the population of the countries, rose from 6.4 per cent to 7.4 per cent, a jump which has not been seen since the beginning of the 1980s. The trend towards higher wages based on steep rises in productivity, which was prevalent in the region as a whole in the early 1990s, also came to a halt.

32. In particular, in some of the largest countries of the region, the poor performance led to a steep rise in open unemployment (Argentina, Mexico, Venezuela). In other countries such as Ecuador, Panama and Uruguay, moderate or negative growth also affected employment levels, though, generally speaking, not

as seriously. In some countries, the impact of the crisis in 1995 was felt in those labour markets which were already facing difficulties owing to restructuring of production and in the public sector. By contrast, in countries with higher growth rates, such as Brazil, Chile, Colombia, Guatemala, Honduras, Nicaragua and Peru, unemployment rates dropped. The reductions were generally modest, since growth rates were moderate or because growth was based on higher productivity rather than a greater absorption of labour.

33. The varied behaviour of unemployment levels affected wages. While in 1994 real average wages in the formal sector rose, in 1995 wages rose significantly only in a few countries.

34. Thus, in Mexico real wages fell by 13 per cent up to July. In Argentina, low inflation will not allow a large wage adjustment downwards through nominal adjustments which are less than the increases in the consumer price index: here, the chief measures used to reduce labour costs, apart from dismissals, were the suspension of overtime and a reduction in working hours. Average real industrial wages went down only 1 per cent. In Costa Rica and Uruguay, too, real wages went down. By contrast, in Chile average wages and minimum wages went up in real terms by approximately 4 per cent, against a background of favourable development of labour productivity. Over the course of the year in Brazil, real wages recovered from their fall in the second half of 1994. Thus in July the cumulative average reached the annual average for 1994, and by the end of the year the annual average may well exceed it. In Colombia, industrial wages maintained their levels in real terms.

V. THE EXTERNAL SECTOR

A. Foreign trade and the terms of trade

35. Given the preponderance that the main economies have in the regional aggregate, the overall results of the external sector reflect the atypical performance of Mexico and Argentina, on the one hand, and Brazil, on the other. These countries' performances had opposing effects.

36. In the first place, the Mexican crisis had a decisive influence on the region's aggregate external sector performance, although this influence was clearly concentrated in Argentina and Mexico, whose external accounts reflected, as did those of Uruguay, the adjustments in their economies. Confronted with a sharp drop in capital inflows, these countries had to mount a drastic effort to reduce their current account deficits, which had risen spectacularly during the present decade, by reducing spending and increasing external sales. In the rest of the countries, the process of adjusting to reduced capital inflow was aided by the international economic situation, as shown in the improvement of the terms of trade, which contributed significantly to a widespread increase in export revenues and to the maintenance of a rising trend in imports.

37. The other important factor that helps explain the region's overall performance was the jump in demand that occurred in Brazil as a result of the success of its stabilization plan. This increased demand gave rise to a

spectacular surge in imports, which in turn caused a deterioration in the current account balance, only to be offset by a trebling of net capital inflows.

38. In addition, the boom in intraregional trade continued to be a driving force for the region's external trade. In 1995, trade among the Latin American Integration Association (LAIA) member countries continued to increase more than their trade with the rest of the world. The subregional groups of countries made an active contribution to this growth. An example is the evolution of trade within MERCOSUR, where, in spite of the difficulties that affected the external accounts of its two principal members, trade within the group came to represent 22 per cent of their members' total trade, compared with 19 per cent in 1994. In the Andean Group, this percentage rose from 10 per cent to nearly 12 per cent thanks to the rapid growth (42 per cent) of trade among its members.

39. As in the previous year, the terms of trade improved in most of the region, thanks above all to higher commodity prices (since commodities are major export items). Among South American countries, the ones that benefited the most from this situation were Chile, Colombia and Peru, whose good economic performance in 1995 was due in part to these higher prices. El Salvador, Honduras and the Dominican Republic also saw improvements of more than 10 per cent in 1995 (see table 8). On the other hand, the terms of trade of the region's two main economies, which mostly export manufactures, either stagnated (Brazil) or declined (Mexico). The same happened in Bolivia, Ecuador, Panama and Uruguay.

40. The value of merchandise exports rose by 23 per cent, which constituted another milestone in this decade's rapid increase. There has not been a similar increase since 1980. The only greater increase in the past several decades was when the price of petroleum rose abruptly during the 1970s. The region's external sales in 1995 thus easily surpassed US$ 220 billion (see table 6). The Mexican crisis had a decisive influence on this exceptional result. In fact, 60 per cent of the increase came from the two countries (Mexico and Argentina) that had to take the most drastic recessionary adjustment measures as a result of the crisis.

41. With the exception of Argentina and Mexico, the generally good performance was due in large measure to the favourable international economic situation, since for most of the countries the principal cause of their improved results was the higher prices they received for their export goods.

42. In all the countries in the region the dollar value of merchandise exports rose, and they all experienced unit value increases. The average pattern of export performance was exhibited by a group of countries (Colombia, Costa Rica, Dominican Republic, Ecuador, Honduras, Peru and Venezuela). This pattern was characterized by increases in the value of exports of more than 10 per cent and less than 30 per cent, with positive and generally moderate variations in volume and predominant contribution of unit value increases to value increases.

43. Two groups of countries with very different characteristics deviated from this pattern. One group was made up of countries with export growth in excess of 30 per cent, and the other of countries with growth not higher than 10 per cent.

44. The first group, whose exports grew far more than the average, was made up of countries that occupy both ends of the Latin American spectrum as regards GDP growth, together with a number of Central American and Caribbean countries. These are Argentina, Chile, El Salvador, Guatemala, Haiti, Mexico and Nicaragua. Almost all these countries achieved export volumes that were substantially higher than the average. But in Chile, whose outstanding trade results were accompanied by equally outstanding results for its economy as a whole, the increase in unit value contributed the major part of its export income, as also occurred in the Central American countries mentioned. Argentina, Mexico and Haiti, on the other hand, owe their excellent export performance above all to increased shipments. In the first two of these countries, this performance was the result of drastic adjustment programmes, while in Haiti it was due to the recovery of trade following several years of political emergency, trade embargo and disruption of the economy.

45. In the other group are the five countries with lower export growth (Bolivia, Brazil, Panama, Paraguay and Uruguay). There were various reasons for this performance. In Brazil's case it was due to the sharp appreciation of the local currency; in Panama's case it was due to shrinking demand for manufactures exported from the Colón Free Zone; in the case of Paraguay, it was due to the expanded production of soya beans in Brazil, which resulted in a drop in demand in Brazil for Paraguayan soya beans and in difficulties in transporting them across that country; in the case of Uruguay, it was due to the effects of the Argentine recession. This factor also contributed to the weakness of Bolivian export sales.

46. Consequently, the positive evolution of prices and export quantities allowed the region to increase its imports, thereby mitigating somewhat the negative impact of the economic slow-down and the decline in capital inflows that limited the availability of foreign exchange. In value, the region's imports expanded by 12 per cent, less than the previous year, and topped US$ 220 billion, a record high. Excluding Argentina and Mexico, where the crisis caused a substantial drop in imports, however, the growth figure is much higher (33 per cent), although it is also true that much of the region's increase was concentrated in a single country: Brazil (see table 7).

47. The value of imports varied widely from country to country because of the diversity of factors influencing quantities imported. Increases in the prices of imports, for their part, varied little; these increases were due primarily to higher prices of manufactures.

48. Hence, the wide spread in import figures was due chiefly to differences in quantities imported. A middle ground was found in some countries where the increase in imports was associated with a moderate expansion of domestic demand that resulted in output growth and extended to foreign suppliers. In none of these cases did the increase in imports significantly exceed 10 per cent in quantity and 20 per cent in value.

49. In contrast to this median situation, at one extreme were countries with fast-growing domestic demand and good access to foreign currency, which expanded both their output and their external purchases, or countries which experienced real appreciation of their currencies. Both those conditions prevailed in Chile

and Peru. In the Dominican Republic, a strong increase in imports was associated with a surge in industrial activity in the free zones. In Brazil, imports were stimulated by exchange rate appreciation, and the same happened in Venezuela, where import growth occurred in the context of a controlled fixed exchange rate and expectations of devaluation, despite a low level of domestic activity and problems in obtaining foreign currency. All the countries mentioned recorded increases of 30 per cent or more in the value of their imports. Haiti's experience was atypical in that imports rose drastically as political and economic life began to return to normal.

50. At the other extreme were the countries in which declining demand eventually led to a reduction in the components of aggregate supply; this was particularly the case in Argentina, Mexico and Uruguay. In these countries, the drop in the volume of imports more than offset the higher prices of the products purchased. Import volume also declined or stayed the same in Bolivia, Costa Rica, Nicaragua, Panama and Paraguay.

51. Substantial growth in exports of goods caused them to outstrip slower-growing imports. For the first time since 1991, the region's balance of merchandise trade changed signs and showed a modest surplus of US$ 2.3 billion. Decisive in this turnaround were the big merchandise trade surpluses accumulated by Argentina and Mexico, a radical shift from their heavy deficits the year before. Their combined surpluses more than offset the shift in the opposite direction in the other dominant economy in the region, Brazil, which swung from a surplus of over US$ 10 billion the previous year to a deficit of US$ 3 billion in 1995. It was also significant that Chile more than doubled its surplus. The other countries were fairly equally divided between those that improved their balance of merchandise trade and those that saw it deteriorate.

52. In addition to improving its balance of merchandise trade, the region also managed a substantial reduction in its deficit of net service payments. This result was due largely to the drastic improvement in Argentina's and Mexico's balance of net service payments, associated with the drop in foreign purchases by these two countries; this improvement more than made up for the deterioration in the balance of this account experienced by all other South American and some Central American countries. Thus, the deficit in the goods and services trade balance shrank drastically from nearly US$ 27 billion in 1994 to around US$ 6 billion in 1995.

B. The current account and external financing

53. The current account deficit declined significantly in 1995 to US$ 34.5 billion from a 1994 figure of around US$ 50 billion. This reduction resulted entirely from the improved balance of goods and services, since the profits and interest account rose nearly 20 per cent. All the countries in the region posted a deficit, with the exception of the Dominican Republic and Venezuela (see table 9).

54. The most significant changes were similar to those noted in the balance of goods and services: disappearance of Mexico's large deficit, a significant

reduction in Argentina's, and a ballooning of Brazil's deficit. Meanwhile, Venezuela's considerable surplus of the previous year was cut by more than half.

55. Net capital inflows to the region in 1995 amounted to US$ 22.4 billion, lower than in 1994 and much lower than in 1992-1993, when the amount was US$ 65 billion (see table 9). This figure includes US$ 18 billion in direct investment, US$ 14 billion in other long-term capital, and US$ 10 billion in short-term capital and portfolio investment outflows. It should be pointed out that in 1995, capital flows to the region were particularly affected by net outflows from Mexico and Venezuela. Excluding those, the capital account balance for the remaining countries was US$ 43 billion.

56. The 1995 result was influenced by the events of 1994 in Mexico; after its devaluation that December, financial turbulence affected the major economies of the region to varying degrees. In the early months of 1995, short-term capital outflows occurred in a number of Latin American countries and private financing virtually came to a halt. The International Monetary Fund and other multilateral institutions played a vital role in this situation by supplying compensatory capital, thanks to which Mexico was able to fulfil many short-term commitments and, along with Argentina, regain access to the international financial markets.

C. External debt

57. In 1995, the total external debt of the countries of Latin America approached US$ 574 billion, a nominal increase of 8 per cent over the 1994 figure (see table 10). The region's ratio of external debt to exports of goods and services declined once again, thanks to strong external sales and moderate growth in its debt. The ratio thus fell from 250 per cent to 220 per cent, the lowest percentage since 1980. The ratio between interest paid and exports of goods and services also fell, although only slightly.

58. Significant progress was made during 1995 in renegotiating the external debt of the majority of the region's most indebted countries. In October 1995, under the Brady Plan, Panama signed an agreement to restructure its commercial external debt that included US$ 3.5 billion for payment of debt and overdue interest. Peru announced that it had come to a provisional agreement to restructure its debt with the commercial banking sector, also under the Brady Plan, that would involve US$ 4.4 billion in principal and US$ 3.5 billion in overdue interest payments. Similarly, Nicaragua repurchased its debt of US$ 1.37 billion with the commercial banking sector at 7 per cent of its face value; for this purpose it made use of funds from the Inter-American Development Bank, the World Bank and a number of European Governments. During 1995, Bolivia, Nicaragua and Haiti signed agreements to restructure their bilateral debt with the countries that make up the Paris Club, and Honduras is also negotiating a restructuring. These negotiations have brought some relief to the majority of the region's most indebted countries, but their debt levels remain high.

Table 1

Latin America and the Caribbean: main economic indicators

	1991	1992	1993	1994	1995 a/
	Annual rates of variation				
Economic activity and prices					
Gross domestic product	3.3	2.8	3.0	4.6	0.6
Per capita gross domestic product	1.4	0.9	1.1	2.7	-1.1
Consumer prices	199.7	418.9	887.6	337.3	25.0
Terms of trade (goods), free on board/free on board	-6.5	-3.9	-0.3	2.7	1.8
	Billions of dollars				
External sector					
Exports of goods	136.8	146.0	156.4	182.0	223.4
Imports of goods	124.0	151.6	166.5	197.2	221.1
Trade balance (goods)	12.8	-5.6	-10.1	-15.2	2.3
Balance on current account	18.8	-36.9	-46.1	-50.0	-34.5
Balance on capital account	37.9	61.6	66.9	44.9	22.4
Total disbursed external debt	449.1	466.0	507.4	533.4	573.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

Table 2

Diversity of economic performance in Latin America and the Caribbean in 1996

(Percentages)

	1994	1995 a/				
	Latin America	Latin America	Argentina	Mexico	Brazil	Other countries
Gross domestic product	4.6	0.6	-2.5	-7.0	4.0	4.5
Consumption	4.0	0.2	-5.5	-17.6	10.0	6.6
Gross capital formation	9.7	-5.8	-14.0	-30.0	10.9	7.0
Domestic demand	5.0	-1.0	-7.4	-20.3	10.2	6.7
Exports of goods and services (volume)	9.2	10.5	17.1	24.5	-2.8	5.6
Imports of goods and services (volume)	14.3	2.8	-17.4	-14.9	36.7	14.4
Net inflow of capital (billions of dollars)	44.9	22.4 b/	-0.4 b/	-16.9 b/	28.0	10.7

Source: ECLAC, on the basis of official figures converted into dollars at 1980 prices.

a/ Preliminary estimates.

b/ Not including "exceptional financing" of the balance of payments.

Table 3

Latin America and the Caribbean: total gross domestic product

(Percentages on the basis of values at 1980 prices)

	Annual rates of variation							Cumulative variation	
	1989	1990	1991	1992	1993	1994	1995 a/	1981-1990	1991-1995 a/
Latin America and the Caribbean	0.9	0.3	3.3	2.8	3.0	4.6	0.6	13.0	14.9
South American countries	-0.1	-1.1	3.7	3.0	4.2	5.1	2.9	10.9	20.3
Argentina	-6.2	-0.1	8.9	8.7	6.1	7.4	-2.5	-8.7	31.4
Bolivia	3.5	4.7	5.1	1.2	4.1	4.2	3.5	1.4	19.7
Brazil	3.1	-4.4	0.3	-0.9	4.2	5.8	4.0	16.8	14.1
Chile	9.7	3.3	6.8	10.6	5.9	4.1	8.0	32.1	40.7
Colombia	3.5	4.0	1.8	3.8	4.7	5.6	5.5	43.6	23.0
Ecuador	0.2	2.0	4.9	3 4	2.2	4.2	2.5	20.4	18.4
Guyana	-4.5	-2.8	5.4	7.5	7.6	8.4	3.5	-24.4	36.8
Paraguay	5.9	3.1	2.3	1.7	3.9	3.0	4.0	36.6	15.9
Peru	-11.5	-5.6	2.6	-1.2	5.8	12.8	7.5	-11.4	30.1
Suriname	4.4	0.1	3.5	5.8	-4.5	-0.8	...	5.0	3.7 b/
Uruguay	1.3	0.9	3.2	7.9	2.5	5.1	-1.5	4.7	18.2
Venezuela	-7.8	6.8	9.7	5.8	-0.2	-2.9	2.0	4.2	14.8
Mexico	3.3	4.4	3.6	2.8	0.6	3.5	-7.0	17.9	3.2
Central American and Caribbean countries	2.4	0.3	-1.3	0.2	-0.8	2.5	3.4	17.6	3.9
Bahamas	2.0	4.8	-3.2	1.0	2.4	0.0	1.5	31.2	1.6
Barbados	3.7	-3.2	-4.2	-5.8	1.1	4.2	2.0	9.5	-3.1
Belize	13.1	10.3	3.0	11.3	3.5	1.6	...	56.0	20.5 b/
Costa Rica	5.5	3.4	2.1	7.3	6.1	4.3	2.5	25.1	24.2
Cuba	0.7	-3.0	-10.7	-11.6	-14.9	0.7	2.5	39.5	-30.6
Dominican Republic	4.8	-5.3	0.5	6.8	2.3	4.3	5.0	27.5	20.1
El Salvador	0.4	4.4	2.3	7.2	6.3	4.3	6.5	-7.2	29.4
Guatemala	3.7	2.9	3.5	4.9	3.8	3.8	4.5	8.8	22.2
Haiti	1.0	-0.2	-0.8	-14.3	-5.1	-12.2	3.5	-3.8	-26.7
Honduras	4.7	-0.4	2.3	6.1	6.7	-2.0	3.5	25.5	17.7
Jamaica	6.3	6.2	1.2	2.0	1.6	2.5	0.5	31.8	7.9
Nicaragua	-1.7	0.0	-0.2	0.4	-0.4	3.2	4.0	-12.7	7.2

	Annual rates of variation							Cumulative variation	
	1989	1990	1991	1992	1993	1994	1995 a/	1981-1990	1991-1995 a/
Panama	-0.1	6.3	8.6	6.1	4.2	1.8	3.0	20.1	25.7
Trinidad and Tobago	-0.4	1.9	1.7	-2.3	-2.8	5.1	3.5	-19.9	5.0
OECS c/ countries	6.1	4.7	3.3	3.9	2.1	3.0	2.8	78.7	16.3
Antigua and Barbuda	6.3	3.5	4.3	1.7	3.4	5.3	...	86.5	15.4 b/
Dominica	-1.1	6.4	2.3	2.9	2.6	1.9	-2.0	53.6	8.0
Grenada	5.8	5.2	3.6	1.1	-1.3	2.3	...	61.8	5.8 b/
Saint Kitts and Nevis	6.7	3.0	3.8	3.6	4.0	4.1	...	75.0	16.4 b/
Saint Lucia	8.5	4.4	2.3	7.1	2.3	2.8	4.0	93.5	19.8
Saint Vincent and the Grenadines	7.2	7.0	3.1	6.5	1.4	0.4	4.0	87.0	16.3

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.

Note: Totals and subtotals exclude, where applicable, countries for which no information is provided.

a/ Preliminary estimates, subject to revision. Figures for 1995 were rounded off to the nearest whole or half per cent.

b/ For the period 1991-1994.

c/ Organization of Eastern Caribbean States.

Table 4

Latin America and the Caribbean: per capita gross domestic product

(Percentages on the basis of values at 1980 prices)

	Annual rates of variation							Cumulative variation	
	1989	1990	1991	1992	1993	1994	1995 a/	1981-1990	1991-1995 a/
Latin America and the Caribbean	1.0	-1.6	1.4	0.9	1.1	2.7	-1.1	-7.5	5.1
South American countries	1.9	-2.9	1.8	1.2	2.4	3.3	1.2	-9.1	10.4
Argentina	-7.5	-1.4	7.5	7.3	4.8	6.1	-3.6	-21.1	23.6
Bolivia	1.3	2.4	2.7	-1.2	1.6	1.7	1.2	-17.4	6.1
Brazil	1.2	-6.1	-1.4	-2.6	2.4	4.0	2.4	-4.6	4.8
Chile	7.8	1.6	5.0	8.8	4.2	2.4	6.4	12.4	29.7
Colombia	1.7	2.2	0.1	2.0	3.0	3.9	3.6	17.9	13.2
Ecuador	-2.2	-0.3	2.5	1.1	0.0	2.0	0.4	-6.6	6.0
Guyana	-4.8	-2.9	4.4	6.3	6.6	7.2	2.5	-27.7	30.0
Paraguay	2.7	0.1	-0.6	-1.1	1.1	0.2	1.3	-0.8	0.9
Peru	-13.2	-7.4	0.7	-2.9	4.0	10.9	5.7	-28.9	19.3
Suriname	3.2	-1.2	2.3	4.6	-5.6	-1.9	...	-6.8	-0.8 b/
Uruguay	0.7	0.3	2.6	7.2	1.9	4.5	-2.1	-1.4	14.8
Venezuela	-10.2	4.2	7.1	3.4	-2.4	-5.1	-0.1	-19.4	2.5
Mexico	1.4	2.5	1.7	0.9	-1.2	1.7	-8.6	-4.3	-5.8
Central American and Caribbean countries	0.4	-1.7	-3.3	-1.9	-2.9	0.4	1.4	-3.4	-6.3
Bahamas	0.4	2.8	-4.8	-0.4	0.9	-1.5	0.0	7.7	-5.7
Barbados	3.0	-3.2	-4.6	-6.2	0.7	3.8	1.6	6.1	-4.9
Belize	10.3	7.4	0.4	8.5	0.9	-1.6	...	20.5	8.7 b/
Costa Rica	2.6	0.7	-0.4	4.6	3.5	1.9	0.2	-5.8	10.1
Cuba	-0.3	-3.8	-11.5	-12.3	-15.6	-0.1	1.7	27.8	-33.4
Dominican Republic	2.5	-7.2	-1.5	4.7	0.4	2.4	2.9	2.1	9.2
El Salvador	-1.5	2.4	0.3	4.9	4.0	2.0	4.0	-18.8	16.0
Guatemala	0.8	0.0	0.6	1.9	0.8	0.9	1.6	-18.2	5.8
Haiti	-1.0	-2.2	-2.8	-16.0	-7.0	-14.0	1.4	-20.6	-33.7
Honduras	1.6	-3.4	-0.7	3.0	3.6	-4.8	0.7	-8.2	1.6
Jamaica	5.8	5.7	0.5	1.3	0.9	1.8	-0.4	18.9	4.3
Nicaragua	-4.3	-3.0	-3.6	-3.4	-4.3	-0.7	0.4	-33.5	-11.1

/...

	Annual rates of variation							Cumulative variation	
	1989	1990	1991	1992	1993	1994	1995 a/	1981-1990	1991-1995 a/
Panama	-2.1	4.3	6.6	4.1	2.2	0.0	1.0	-2.4	14.6
Trinidad and Tobago	-1.2	0.2	0.6	-3.4	-3.8	3.9	2.4	-29.9	-0.6
OECS c/ countries	5.3	4.3	2.6	3.2	1.6	2.4	1.9	70.2	11.2
Antigua and Barbuda	5.6	2.8	3.7	1.0	2.8	4.7	...	77.8	12.6 b/
Dominica	-2.0	7.9	2.3	2.9	2.6	1.9	-1.8	60.0	8.0
Grenada	4.9	5.7	3.4	0.9	-1.5	2.1	...	58.3	4.9 b/
Saint Kitts and Nevis	8.7	3.5	3.8	3.6	6.5	4.1	...	95.8	19.2 b/
Saint Lucia	7.1	2.9	1.0	5.7	0.9	1.5	2.6	67.3	12.2
Saint Vincent and the Grenadines	6.2	5.9	2.2	5.6	0.4	-0.5	3.1	71.3	11.1

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.

Note: Totals and subtotals exclude, where applicable, countries for which no information is provided.

a/ Preliminary estimates, subject to revision.

b/ For the period 1991-1994.

c/ Organization of Eastern Caribbean States.

Table 5

Latin America and the Caribbean: variations in consumer price indexes

(December-December variations)

	1987	1988	1989	1990	1991	1992	1993	1994	1995 a/
Latin America and the Caribbean	209.2	776.8	1 212.5	1 191.3	199.7	418.9	887.6	337.3	25.0
Argentina	174.8	387.7	4 923.3	1 343.9	84.0	17.6	7.4	3.9	1.8 b/
Barbados	6.3	4.4	6.6	3.4	8.1	3.4	-1.0	0.5	0.4 c/
Bolivia	10.7	21.5	16.6	18.0	14.5	10.5	9.3	8.5	10.7 b/
Brazil	394.6	993.3	1 863.6	1 584.6	475.8	1 149.1	2 489.1	929.3	22.0 b/
Chile	21.4	12.7	21.4	27.3	18.7	12.7	12.2	8.9	8.3 b/
Colombia	24.0	28.2	26.1	32.4	26.8	25.2	22.6	22.6	20.0 b/
Costa Rica	16.4	25.3	10.0	27.3	25.3	17.0	9.0	19.9	24.9 b/
Dominican Republic	22.7	55.8	34.6	79.9	7.9	5.2	2.8	14.3	12.1 b/
Ecuador	32.5	85.7	54.3	49.5	49.0	60.2	31.0	25.4	22.2 b/
El Salvador	19.6	18.2	23.5	19.3	9.8	20.0	12.1	8.9	11.4 b/
Guatemala	9.3	12.3	20.2	59.6	10.2	14.2	11.6	11.6	8.6 b/
Haiti	-4.1	8.6	10.9	26.1	6.6	18.0	39.3	52.1 d/	25.0 d/
Honduras	2.9	6.6	11.4	36.4	21.4	6.5	13.1	28.8	28.6 e/
Jamaica	8.4	8.9	17.2	29.7	80.2	40.2	30.1	26.9	15.8 f/
Mexico	159.2	51.7	19.7	29.9	18.9	11.9	8.0	7.1	48.5 b/
Nicaragua	1 347.2	33 547.6	1 689.1	13 490.2	775.4	3.5	19.5	12.5	10.8 e/
Panama	0.9	0.3	-0.2	0.8	1.1	1.6	0.9	1.4	0.8 e/
Paraguay	32.0	16.9	28.5	44.1	11.8	17.8	20.4	18.3	10.4 b/
Peru	114.5	1 722.6	2 775.3	7 649.6	139.2	56.7	39.5	15.4	10.4 b/
Trinidad and Tobago	8.3	12.1	9.3	9.5	2.3	8.5	13.5	5.5	5.6 f/
Uruguay	57.3	69.0	89.2	129.0	81.3	59.0	52.9	44.1	36.8 b/
Venezuela	40.3	35.5	81.0	36.5	31.0	31.9	45.9	70.8	52.9 b/

Source: Information provided by countries.

a/ Figures corresponding to the price variation in the 12-month period ending in the month indicated for each country.

b/ Corresponding to the variation between November 1994 and November 1995.

c/ Corresponding to the variation between June 1994 and June 1995.

d/ Fiscal year, ending in September.

e/ Corresponding to the variation between October 1994 and October 1995.

f/ Corresponding to the variation between July 1994 and July 1995.

Table 6

Latin America and the Caribbean: exports of goods, free on board

(Indexes 1980 = 100 and annual rates of variation)

	Value				Unit value				Volume			
	Index	Rates			Index	Rates			Index	Rates		
	1995 a/	1993	1994	1995 a/	1995 a/	1993	1994	1995 a/	1995 a/	1993	1994	1995 a/
Latin America	252	7.0	16.4	22.7	88	-0.2	6.6	11.1	286	7.3	9.2	10.5
South American countries	197	4.3	16.0	17.5	92	-3.7	7.5	13.4	214	8.1	7.9	3.6
Argentina	257	7.2	20.8	30.1	94	2.0	2.0	11.0	274	5.1	18.4	17.1
Bolivia	109	17.6	37.7	4.6	63	-6.6	13.2	6.0	175	25.9	21.6	-1.3
Brazil	233	8.4	12.3	7.9	89	-2.0	6.4	11.0	261	10.6	5.5	-2.8
Chile	338	-8.1	25.4	37.8	113	-10.7	15.5	22.5	300	2.9	8.6	12.5
Colombia	269	2.3	17.9	22.5	115	-4.4	17.0	21.5	233	7.0	0.7	0.8
Ecuador	170	1.8	21.4	15.4	61	-3.9	11.0	5.5	280	5.9	9.3	9.4
Paraguay	489	52.8	7.7	9.8	135	4.0	9.0	11.5	363	47.0	-1.0	-1.5
Peru	140	-0.6	31.5	20.3	119	-8.0	14.0	20.0	117	8.0	15.4	0.3
Uruguay	195	-3.9	10.5	8.2	106	-5.1	7.5	11.0	185	1.3	2.8	-2.6
Venezuela	96	0.1	10.4	16.5	65	-6.2	1.5	10.5	149	6.7	8.8	5.4
Mexico	523	12.3	17.3	33.2	82	6.2	5.0	7.0	639	5.8	11.8	24.5
Central American and Caribbean countries	179	6.8	14.8	17.0	131	-0.2	6.4	13.7	137	7.1	7.9	2.9
Costa Rica	247	11.8	7.7	18.1	98	1.2	8.0	14.5	253	10.5	-0.3	3.2
Dominican Republic	85	-9.1	25.9	27.3	88	-5.3	11.7	23.5	97	-3.9	12.6	3.2
El Salvador	157	22.4	70.7	35.3	123	2.5	21.0	25.0	128	19.4	41.4	8.2
Guatemala	137	6.2	13.7	34.8	112	2.5	10.0	17.5	122	3.6	3.4	14.7
Haiti	46	7.9	-36.3	92.3	75	2.1	10.0	10.5	61	5.7	-42.1	73.7
Honduras	134	1.7	8.1	23.6	117	2.3	8.0	18.5	115	-0.5	0.1	4.4
Nicaragua	109	19.7	31.5	39.6	88	15.0	21.0	18.5	123	4.1	8.7	17.9
Panama	271	5.5	10.0	3.9	161	-3.0	0.0	6.5	168	8.8	9.8	-2.4

Source: ECLAC, on the basis of official information.

a/ Preliminary estimates.

Table 7

Latin America and the Caribbean: imports of goods, free on board

(Indexes 1980 = 100 and annual rates of variation)

	Value				Unit value				Volume			
	Index	Rates			Index	Rates			Index	Rates		
	1995 a/	1993	1994	1995 a/	1995 a/	1993	1994	1995 a/	1995 a/	1993	1994	1995 a/
Latin America and the Caribbean	243	9.7	18.5	12.1	120	-0.1	3.6	9.1	201	9.9	14.3	2.8
South American countries	200	14.7	17.3	27.3	112	-2.8	3.3	9.7	183	18.0	13.5	16.0
Argentina	191	13.6	27.9	-10.0	146	-1.5	3.0	9.0	129	15.3	24.1	-17.4
Bolivia	211	6.8	0.9	7.8	115	1.2	4.4	7.0	183	5.5	-3.3	0.8
Brazil	218	25.1	28.8	51.0	100	-3.7	3.0	10.5	218	29.9	24.9	36.7
Chile	264	10.2	6.8	32.7	120	-2.2	3.6	9.5	220	12.7	3.1	21.1
Colombia	309	50.7	21.5	20.0	111	-1.2	3.0	9.5	273	52.4	18.0	9.7
Ecuador	175	18.8	32.3	19.7	86	-1.5	4.3	9.0	202	20.7	26.7	9.8
Paraguay	490	37.0	31.0	-5.6	85	-1.0	2.9	7.0	574	38.3	27.5	-11.8
Peru	246	-0.2	40.0	34.3	143	-0.1	2.3	9.0	172	-0.1	36.9	23.1
Uruguay	153	10.1	22.0	-1.5	106	-6.9	2.8	10.5	144	18.3	18.7	-10.9
Venezuela	106	-12.6	-31.5	49.3	105	-1.6	4.1	9.0	100	-11.1	-34.1	37.0
Mexico	379	5.2	21.3	-7.7	132	4.5	3.5	8.5	287	0.7	17.3	-14.9
Central American and Caribbean countries	214	4.7	13.1	15.9	131	0.5	4.7	8.0	164	4.1	8.1	7.4
Costa Rica	221	18.1	6.9	9.0	99	-0.7	4.2	9.0	223	18.9	2.5	0.0
Dominican Republic	195	-2.6	7.4	30.1	136	-1.1	3.8	8.0	143	-1.5	3.6	20.4
El Salvador	341	13.3	36.3	26.9	162	-2.1	4.4	8.0	210	15.8	30.5	17.5
Guatemala	208	2.4	6.8	20.3	113	0.4	4.5	9.0	185	2.0	2.2	10.4
Haiti	125	24.5	-47.1	183.7	117	-0.8	8.4	6.5	107	25.6	-51.2	166.0
Honduras	157	-4.6	43.1	11.1	93	1.7	4.3	6.5	169	-6.3	37.2	4.3
Nicaragua	107	-14.5	19.0	9.6	135	5.6	3.4	10.5	80	-19.0	15.1	-0.8
Panama	243	4.5	10.9	6.6	164	2.7	5.0	8.0	148	1.7	5.7	-1.3

Source: ECLAC, on the basis of official information.

a/ Preliminary estimates.

Table 8

Latin America and the Caribbean: terms of trade (goods), free on board/free on board

(Indexes: 1980 = 100 and rates of variation)

	Indexes				Annual rates of variation				Cumulative variation	
	1992	1993	1994	1995 a/	1992	1993	1994	1995 a/	1981-1992	1993-1995 a/
Latin America and the Caribbean	70	70	71	73	-3.9	-0.3	2.7	1.8	-30.2	4.5
South American countries	75	74	79	82	-5.4	-1.0	7.0	3.4	-25.3	10.6
Argentina	61	63	63	64	-0.3	3.4	-0.1	1.4	-39.2	1.2
Bolivia	55	51	55	54	-20.5	-7.7	8.3	-0.8	-45.2	7.4
Brazil	85	86	89	90	-2.3	1.8	3.7	0.4	-15.2	4.1
Chile	82	76	84	94	-6.5	-8.7	11.6	11.8	-17.6	24.7
Colombia	83	81	92	102	-11.4	-3.2	13.5	11.1	-16.6	26.1
Ecuador	70	69	73	71	-1.1	-2.4	6.4	-3.2	-29.8	3.1
Paraguay	136	143	152	158	-3.8	5.0	5.9	4.2	36.3	10.4
Peru	74	68	76	84	-1.6	-7.8	11.3	10.1	-26.1	22.6
Uruguay	93	95	99	100	-0.5	1.9	4.6	0.4	-6.8	5.0
Venezuela	65	62	60	61	-4.0	-4.8	-2.4	1.5	-35.0	-1.0
Mexico	61	62	63	62	-1.5	1.8	1.5	-1.4	-39.1	0.0
Central American and Caribbean countries	90	90	95	100	-1.1	-0.8	5.9	5.3	-9.7	11.5
Costa Rica	89	91	94	99	-1.7	1.8	3.8	5.0	-11.0	9.0
Dominican Republic	55	52	56	65	-8.7	-4.3	7.6	14.4	-45.2	23.2
El Salvador	54	57	66	76	-5.4	4.8	15.9	15.7	-46.0	34.1
Guatemala	86	88	93	100	-7.1	2.2	5.2	7.8	-13.8	13.4
Haiti	59	61	62	64	-6.0	3.0	1.5	3.7	-40.6	5.2
Honduras	108	109	113	125	-2.6	0.6	3.5	11.2	8.1	15.1
Nicaragua	48	52	61	66	-30.9	8.8	17.0	7.3	-51.9	25.6
Panama	111	105	100	98	-0.5	-5.6	-4.7	-1.5	10.8	-6.1

Source: ECLAC, on the basis of official information.

a/ Preliminary estimates.

Table 9

Latin America and the Caribbean: balance of payments

(Millions of dollars)

	Exports of goods			Imports of goods			Balance of goods			Balance of services a/			Balance of goods and services		
	1993	1994	1995 b/	1993	1994	1995 b/	1993	1994	1995 b/	1993	1994	1995 b/	1993	1994	1995
Latin America and the Caribbean	156 393	181 988	223 375	166 468	197 222	221 095	-10 075	-15 234	2 280	-11 479	-11 421	-8 140	-21 554	-26 655	-5 860
South American countries	93 369	108 322	127 330	84 199	98 752	125 665	9 170	9 570	1 665	-11 132	-11 331	-12 370	-1 962	-1 761	-10 705
Argentina	13 117	15 839	20 600	15 545	19 880	17 900	-2 428	-4 041	2 700	-2 481	-2 891	-1 800	-4 909	-6 932	900
Bolivia	716	985	1 030	1 112	1 122	1 210	-396	-137	-180	-145	-113	-175	-541	-250	-355
Brazil	38 783	43 545	47 000	25 711	33 105	50 000	13 072	10 440	-3 000	-5 004	-5 922	-6 100	8 068	4 518	-9 100
Chile	9 199	11 537	15 900	10 181	10 878	14 430	-982	659	1 470	5	19	-25	-977	678	1 445
Colombia	7 429	8 756	10 725	9 086	11 040	13 250	-1 657	-2 284	-2 525	-21	-323	-370	-1 678	-2 607	-2 895
Ecuador	3 062	3 717	4 290	2 474	3 272	3 915	588	445	375	-340	-387	-475	248	58	-100
Paraguay	1 653	1 780	1 955	2 672	3 500	3 305	-1 019	-1 720	-1 350	458	550	500	-561	-1 170	-850
Peru	3 463	4 555	5 480	4 043	5 661	7 600	-580	-1 106	-2 120	-656	-519	-810	-1 236	-1 625	-2 930
Uruguay	1 732	1 913	2 070	2 118	2 585	2 545	-386	-672	-475	282	429	315	-104	-243	-160
Venezuela	14 215	15 495	18 280	11 257	7 709	11 510	2 958	7 986	6 770	-3 230	-2 174	-3 430	-272	5 812	3 340
Mexico	51 885	60 882	81 090	65 366	79 347	73 275	-13 481	-18 465	7 815	-2 529	-2 589	1 050	-16 010	-21 054	8 865
Central American and Caribbean countries	11 139	12 784	14 955	16 903	19 123	22 155	-5 764	-6 339	-7 200	2 182	2 499	3 180	-3 582	-3 840	-4 020
Costa Rica c/	1 945	2 094	2 475	2 610	2 789	3 040	-665	-695	-565	244	274	295	-421	-421	-270
Dominican Republic c/, d/	511	644	820	2 118	2 276	2 960	-1 607	-1 632	-2 140	1 262	1 587	1 970	-345	-45	-170
El Salvador c/	732	1 249	1 690	1 766	2 407	3 055	-1 034	-1 158	-1 365	26	-53	-110	-1 008	-1 211	-1 475
Guatemala c/	1 363	1 550	2 090	2 384	2 547	3 065	-1 021	-997	-975	108	-61	95	-913	-1 058	-880
Haiti	82	52	100	267	141	400	-185	-89	-300	-56	-38	-175	-241	-127	-475
Honduras c/	853	922	1 140	944	1 351	1 500	-91	-429	-360	17	83	100	-74	-346	-260
Nicaragua	267	351	490	659	785	860	-392	-434	-370	-56	-71	-55	-448	-505	-425
Panama	5 386	5 922	6 150	6 155	6 827	7 275	-769	-905	-1 125	637	778	1 060	-132	-127	-65

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	Balance of profits and interest a/			Unrequited private transfer payments			Balance on current account			Balance on capital account f/			Global balance*		
	1993	1994	1995 b/	1993	1994	1995 b/	1993	1994	1995 b/	1993	1994	1995 b/	1993	1994	1995 b/
Latin America and the Caribbean	-32 951	-33 419	-39 850	8 395	10 052	11 220	-46 110	-50 022	-36 490	66 928	44 891	22 635	20 818	-5 131	-12 055
South American countries	-20 363	-20 259	-25 340	3 140	4 074	4 860	-19 185	-17 946	-31 185	32 652	30 722	35 705	13 467	12 776	4 520
Argentina g/	-2 989	-3 626	-4 500	535	315	300	-7 363	-10 243	-3 300	9 911	10 867	-400	2 548	624	-3 700
Bolivia	-201	-193	-210	26	24	20	-716	-419	-545	646	414	425	-70	-5	-120
Brazil	-10 358	-8 821	-12 000	1 682	2 588	3 200	-608	-1 715	-17 900	9 821	9 001	28 000	9 213	7 286	10 100
Chile	-1 505	-1 775	-1 770	61	52	55	-2 421	-1 045	-270	2 841	4 177	310	420	3 132	40
Colombia	-1 541	-1 496	-2 030	1 138	1 055	1 110	-2 081	-2 848	-3 815	2 062	3 015	4 180	-19	167	365
Ecuador	-908	-1 000	-965	0	0	0	-660	-942	-1 065	1 188	1 410	970	528	468	-95
Paraguay	-84	-80	-80	5	0	0	-640	-1 250	-930	727	1 580	930	87	330	0
Peru	-981	-1 575	-1 855 b/	0	0	0	-2 217	-3 200	-4 785	2 662	4 668	4 610	445	1 468	-175
Uruguay	-192	-206	-170	32	33	30	-264	-416	-300	458	506	340	194	90	40
Venezuela	-1 604	-1 687	-1 760	-339	7	145	-2 215	4 132	1 725	2 336	-4 916	-3 660	121	-784	-1 935
Mexico	-11 030	-11 745	-13 030	3 544	3 921	3 950	-23 496	-28 878	-215	30 728	11 212	-16 900	7 232	-17 666	-17 215
Central American and Caribbean countries	-1 558	-1 415	-1 480	1 711	2 057	2 410	-3 429	-3 198	-3 090	3 548	2 957	3 630	119	-241	540
Costa Rica	-201	-183	-215	85	89	95	-536	-515	-390	478	489	465	-58	-26	75
Dominican Republic	-258	-351	-220	362	439	450	-241	43	60	330	-508	40	89	-465	100
El Salvador	-214	-92	-80	790	1 001	1 150	-332	-302	-405	444	446	545	112	144	140
Guatemala	-152	-104	-120	362	384	480	-703	-778	-520	855	777	430	152	-1	-90
Haiti	-11	-9	-25	73	41	80	-178	-91	-420	197	56	600	19	-37	180
Honduras	-316	-263	-270	29	93	105	-361	-516	-425	255	533	480	-106	17	55
Nicaragua	-429	-466	-500	25	30	75	-853	-941	-850	774	994	890	-79	53	40
Panama	-77	53	-50	-16	-22	-25	-225	-96	-140	215	170	180	-10	74	40

Source: ECLAC, on the basis of information provided by the International Monetary Fund and by official national institutions.

* Transactions that adjust or finance the global balance include reserve assets, use of IMF credit and loans and exceptional financing, especially significant in 1995 in the case of Mexico and Argentina, where such financing amounted to nearly US$ 25 billion and US$ 2 billion, respectively.

(Footnotes on following page)

(Footnotes to table)

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a/ Excluding net payments of profits and interest.

b/ Preliminary ECLAC estimates. The figures were rounded to the nearest 10 or 5.

c/ The balance of services includes the balance of maquila exports and imports.

d/ Preliminary estimates of maquila-produced goods in 1995 indicate US$ 1,873,000,000 in exports and US$ 1,539,000,000 in imports.

e/ Including interest due.

f/ Including short- and long-term autonomous capital, unrequited official transfer payments and errors and omissions, and excluding exceptional financing.

g/ Two different versions of official balance-of-payments data are currently provided. The one included here for reasons of continuity, referred to as "under revision", uses the same methodological criteria as those previously followed by the Central Bank in its estimates. The second (which follows the methodology used in the Argentina en crecimiento publications) modifies, in particular, the estimate of earned income and the imputation of portfolio operations according to residence of agents. These modifications have not yet been incorporated into the series elaborated by IMF.

h/ The balance of profits and interest for 1994 and 1995 includes short- and long-term public- and private-sector interest, whether paid or outstanding.

Table 10

Latin America and the Caribbean: total disbursed external debt a/

(Millions of dollars and rates of variation)

	Year-end balance								Annual rates of variation				
	1988	1989	1990	1991	1992	1993	1994	1995 b/	1979-1981	1982-1983	1984-1993	1994	1995 b/
Latin America	413 846	417 936	439 775	469 090	465 991	507 373	533 836	573 690	22.9	11.3	3.8	5.1	7.5
South American countries	278 511	285 523	299 511	296 904	314 340	342 055	359 809	383 295	20.9	10.6	3.9	5.1	6.6
Argentina	58 473	63 314	60 973	63 700	65 000	74 500	82 000	84 000	41.9	12.4	5.2	10.1	2.4
Bolivia c/	4 043	3 492	3 768	3 582	3 784	3 777	4 216	4 425	14.3	9.8	1.7	11.6	5.0
Brazil	113 469	115 096	123 439	123 811	135 949	145 660	148 295	159 000	14.4	10.6	4.0	1.8	14.0
Chile	18 960	17 520	18 576	17 319	18 964	19 665	21 888	20 900	30.5	7.6	0.9	11.3	-4.5
Colombia	17 960	17 604	17 848	17 312	16 862	18 867	21 813	23 200	28.0	16.0	4.8	15.6	6.4
Ecuador	10 581	11 322	11 856	12 271	12 212	13 630	14 589	13 910	21.0	18.3	6.3	7.0	-4.7
Guyana	1 778	1 801	1 812	1 856	1 871	1 906	1 950	2 020	28.1	17.8	7.1	2.3	3.6
Paraguay	2 002	2 027	1 695	1 666	1 279	1 254	1 272	1 335	12.3	24.5	-1.6	1.4	5.0
Peru	16 693	18 536	19 996	20 787	21 403	23 998	25 460	26 555 d/	1.0	13.8	6.8	6.1	9.3
Uruguay	3 166	3 245	2 933	2 437	2 426	2 395	2 741	2 750	35.9	38.5	-0.5	14.4	0.3
Venezuela e/	31 586	31 566	36 615	32 163	34 674	36 404	35 185	35 200	24.7	4.0	1.4	-3.3	-
Mexico f/	100 900	95 100	101 900	114 900	114 000	127 600	135 500	152 700	30.2	11.9	3.1	6.2	12.7
Central American and Caribbean countries	34 055	37 313	38 364	37 286	37 651	37 717	38 527	37 695	18.8	15.3	6.4	2.1	-2.2
Costa Rica	4 470	4 480	3 930	4 015	4 050	4 046	4 200	4 450	12.8	14.7	1.4	3.8	6.0
Dominican Republic	3 883	4 181	4 500	4 614	4 413	4 559	3 922	3 500	24.2	14.0	3.2	-14.0	-10.8
El Salvador c/	1 769	2 017	2 076	2 102	2 338	1 988	2 027	2 145	17.7	3.0	1.5	2.0	5.8
Guatemala c/	2 340	2 457	2 387	2 254	2 246	2 086	2 157	2 150	19.0	20.6	0.4	3.4	-0.3
Haiti c/	778	803	841	809	819	864	884	900	21.0	21.7	4.6	2.3	1.8
Honduras	3 810	3 374	3 547	3 174	3 538	3 948	4 069	4 200	17.5	16.7	6.2	3.1	3.2
Jamaica	4 002	4 038	4 152	3 874	3 678	3 647	3 660	3 700	22.6	14.9	2.2	0.4	1.1
Nicaragua c/	7 220	9 741	10 616	10 312	10 806	10 987	11 695	10 400	27.1	21.5	11.2	6.4	-11.1
Panama c/	3 771	3 814	3 795	3 699	3 548	3 494	3 663	3 850	9.0	13.8	1.1	4.8	5.1
Trinidad and Tobago	2 012	2 400	2 520	2 433	2 215	2 098	2 250	2 400	29.3	16.3	4.0	7.2	6.7

Source: ECLAC, on the basis of official information.

(Footnotes on following page)

(Footnotes to table)

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a/ Including debt owed to the International Monetary Fund.

b/ Preliminary figures.

c/ Public-sector debt.

d/ The figure for 1995 was estimated using data for the period up to September. The figures for the whole series take into account the financial cost of outstanding public-sector debt servicing owed to the Paris Club and Japan-Peru Oil Company (JAPECO).

e/ Figures provided by the Central Bank of Venezuela.

f/ Public-sector debt excludes investment in government securities by non-residents. Private-sector debt figures from 1991 to 1993 have been adjusted to take into account the privatization process and the elimination of the exchange-control system.